The City of
Hermantown
MINNESOTA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2014
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

The City of
Hermantown
MINNESOTA

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Annual Financial Report

of the

City of Hermantown, Minnesota

For the Fiscal Year Ended
December 31, 2014

Finance Department
City of Hermantown,
Minnesota

CITY OF HERMANTOWN, MINNESOTA

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2014

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ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended December 31, 2014

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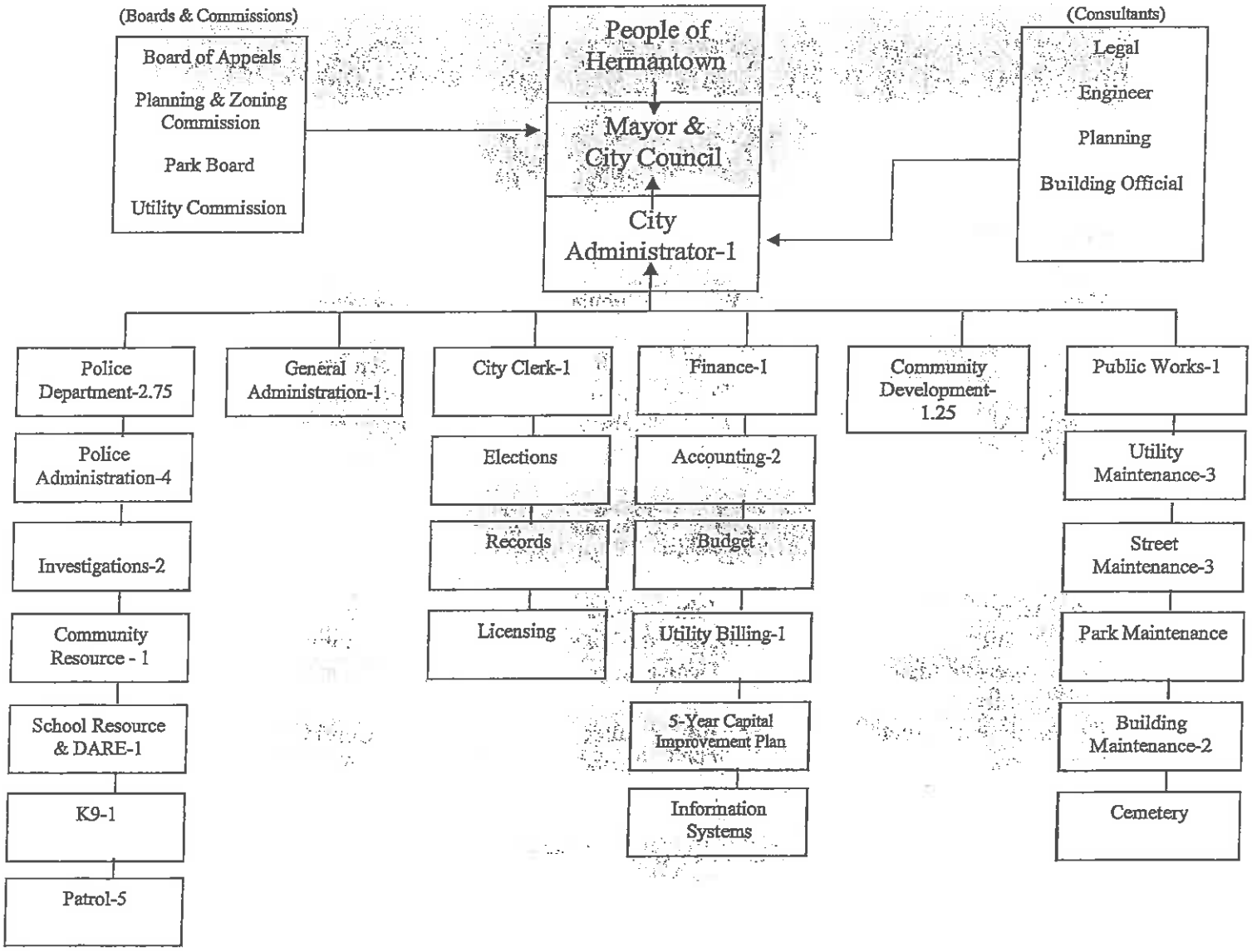
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2014

POSITION	NAME	TERM EXPIRES
ELECTED OFFICIALS		
City Council		
Mayor	Wayne Boucher	December 31, 2016
Council Member 1	John Geissler	December 31, 2016
Council Member 2	Darlene Koski	December 31, 2016
Council Member 3	Gloria Nelson	December 31, 2014
Council Member 4	Brad Tafs	December 31, 2014
APPOINTED OFFICIALS		
City Administrator	John Mulder	Continuous
Police Chief	James M. Crace	Continuous
City Superintendent	Dean Sharpe	Continuous
Community Development Director	Adam Fulton	Continuous
City Clerk	Debbie Lund	Continuous
Attorneys	Maki & Overom, Chartered	
Auditors	WIPFLI LLP	

CITY OF HERMANTOWN, MINNESOTA
ORGANIZATIONAL CHART
December 31, 2014



CITY OF HERMANTOWN, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2014

WIPFLi LLP

Independent Auditor's Report

To the Honorable City Council
City of Hermantown
Hermantown, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermantown, Minnesota (City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and City Sales Tax Fund for the year then ended, in accordance with accounting principles generally accepted in the United States.

Other Matters

Prior-Year Comparative Information

The financial statements include the summarized prior year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2013, from which such summarized information was derived. The financial statements of the City of Hermantown as of and for the year ended December 31, 2013 were audited by Wipfli LLP and our report dated June 27, 2014 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis, pages 6 through 19, and the schedule of funding progress, page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and schedule of funding progress in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

Duluth, Minnesota
July 9, 2015

CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

As management of the City of Hermantown (City), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2014 with certain comparative information for December 31, 2013.

Financial Highlights December 31, 2014 (Current Year)

- The City's overall net position increased by $2,440,036 as a result of 2014 operations. The net position of our governmental activities increased by $2,267,052. The net position of our business-type activities increased by $172,984.

- As of December 31, 2014, the City's governmental funds reported combined fund balances of $11,787,607, an increase of $3,212,688 in comparison with the prior year. Most of the increase is related to a bond settlement and decrease in General Fund expenditures.

- At the end of the 2014 fiscal year, unassigned fund balance for the General Fund was $3,227,296, or 79 percent of total 2015 budgeted General Fund expenditures. This compares to $2,894,695 from the prior year.

- Building permits issued in 2014 totaled 201 permits valued at $20.5 million (159 residential permits valued at $9.5 million, 14 commercial permits valued at $10.8 million and 28 miscellaneous permits valued at $.15 million) Hermantown continues to show strong economic and redevelopment activities with the City

- The City's tax rate increased from 35.674 percent in 2013 to 36.175 percent in 2014. The 2015 tax levy is 36.207 percent.

- Development & Redevelopment projects approved in 2014:
  4490 Sugar Maple Drive PPT LLC 10,000 – 12,000 square foot expansion
  Mall Drive Express Investors (Holiday Inn Express) New 5 story, 80 room hotel
  4950 Miller Trunk Highway Cirrus Aircraft Light manufacturing and assembly uses
  5155 Miller Trunk Highway Autism Opportunity Foundation Medical office in existing building
  Mall Drive/Loberg Road Mills Fleet Farm New 183,622 square foot retail store with lumber yard and gas station/car wash.

CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Financial Highlights December 31, 2013 (Prior Year)

- The City's overall net position increased by $4,415,992 as a result of 2013 operations. The net position of our governmental activities increased by $1,799,042, mostly due to capital contributions including: donation of Lindahl Road from St. Louis County. The net position of our business-type activities increased by $2,616,953, due to the LaVaque, Country Acres, Thompson, Hermantown Road, Morris T homas sewer project, Haines Sewer project and Miller Trunk Water Project.
- As of December 31, 2013, the City's governmental funds reported combined fund balances of $8,574,919, a decrease of $2,068,165 in comparison with the prior year. Most of the decrease is related to a bond settlement and decrease in General Fund expenditures.
- At the end of the 2013 fiscal year, unassigned fund balance for the General Fund was $2,894,695, or 68 percent of total 2013 budgeted General Fund expenditures. This compares to $2,663,774 from the prior year.
- Building permits issued in 2013 totaled 156 permits valued at $9.8 million (113 residential permits valued at $8.36 million, 12 commercial permits valued at $1.23 million and 31 miscellaneous permits valued at $.2 million) Hermantown continues to show strong economic and redevelopment activities with the City
- The City's tax rate increased from 34.41 percent in 2013 to 35.674 percent in 2014.
- Collection of the additional .5% local sales tax was effective on April 1, 2013.
- Establishing a Community Development Department adding a director to the management team. Planning & Zoning was renamed to Community Development and Environmental Services was eliminated.
- Final year to be charged for Assessment Services by St. Louis County which will be provided at no charge after 2013.
- Two additional police officers were hired for the police department to fill vacancy due to worker's compensation absence and military deployment.
- Flood repairs totaling $450,625 completed in response to the June 2012 flooding. Funding sources: FEMA, State Disaster Aid, MSA funding for bridge repairs and City's general fund.

CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Hermantown's basic financial statements. The City of Hermantown's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Hermantown's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

In the statement of net position and the statement of activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the public safety, public works, and park departments, as well as general government. Property taxes, sales taxes, and state aids finance most of these activities.

- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, and street lighting funds are reported here.

The government-wide financial statements can be found on pages 20 and 21 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements begin on page 22 and provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the city sales tax fund). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

- **Governmental Funds** – Most of the City's basic services are reported in governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the City's major funds. Data from the other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the supplementary section of this report.

- **Proprietary Funds** – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-79 of this report.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Hermantown, assets exceeded liabilities by $54,365,139 at the close of the most recent fiscal year. For the prior year ended December 31, 2013, the total net position was $51,925,103. The following table presents a summary of the City's net position as of December 31.

City of Hermantown, Minnesota, Net Position

	Governmental Activities			Business-Type Activities			Total		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Assets									
Current and Other Assets	$ 19,709,281	$ 16,920,360	$ 17,101,799	$ 6,624,946	$ 5,998,113	$ 5,222,461	$ 26,334,227	$ 22,918,473	$ 22,324,260
Capital Assets	20,686,919	20,288,103	21,857,230	34,850,536	35,472,673	33,323,790	55,537,455	55,760,776	55,181,020
Total Assets	40,396,200	37,208,463	38,959,029	41,475,482	41,470,786	38,546,251	81,871,682	78,679,249	77,505,280
Liabilities									
Long-Term Liabilities Outstanding	26,183,337	25,271,635	28,759,322	70,613	64,327	62,586	26,253,950	25,335,962	28,821,908
Other Liabilities	828,474	819,491	881,409	424,119	598,693	292,852	1,252,593	1,418,184	1,174,261
Total Liabilities	27,011,811	26,091,126	29,640,731	494,732	663,020	355,438	27,506,543	26,754,146	29,996,169
Net Position:									
Net Investment in Capital Assets	13,160,927	12,369,713	13,616,169	34,850,536	35,078,263	33,156,578	48,011,463	47,447,976	46,772,747
Restricted for:									
Other State Funds Flood	37,754		180,000				37,754		180,000
DWI Enforcement	12,888	669	24,121				12,888	669	24,121
DWI Prosecution	9,034	9,054	11,634				9,034	9,054	11,634
Public Safety Expo	158	158	157				158	158	157
Park Improvements	12,086	10,077	3,069				12,086	10,077	3,069
Debt Service	9,697,790	8,721,339	11,160,542				9,697,790	8,721,339	11,160,542
Replacement, Depreciation & Development				1,630,789	1,630,790	1,534,034	1,630,789	1,630,790	1,534,034
Unrestricted	(9,546,248)	(9,993,673)	(15,677,394)	4,499,425	4,098,713	3,500,201	(5,046,823)	(5,894,960)	(12,177,193)
Total Net Position	$ 13,384,389	$ 11,117,337	$ 9,318,298	$ 40,980,750	$ 40,807,766	$ 38,190,813	$ 54,365,139	$ 51,925,103	$ 47,509,111

CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

The following table is a summary of revenues, expenses, and changes in net position for the years ended December 31, 2014, 2013, and 2012. This table gives users a better understanding of the sources and uses of the City's net position.

City of Hermantown, Minnesota's Change in Net Position

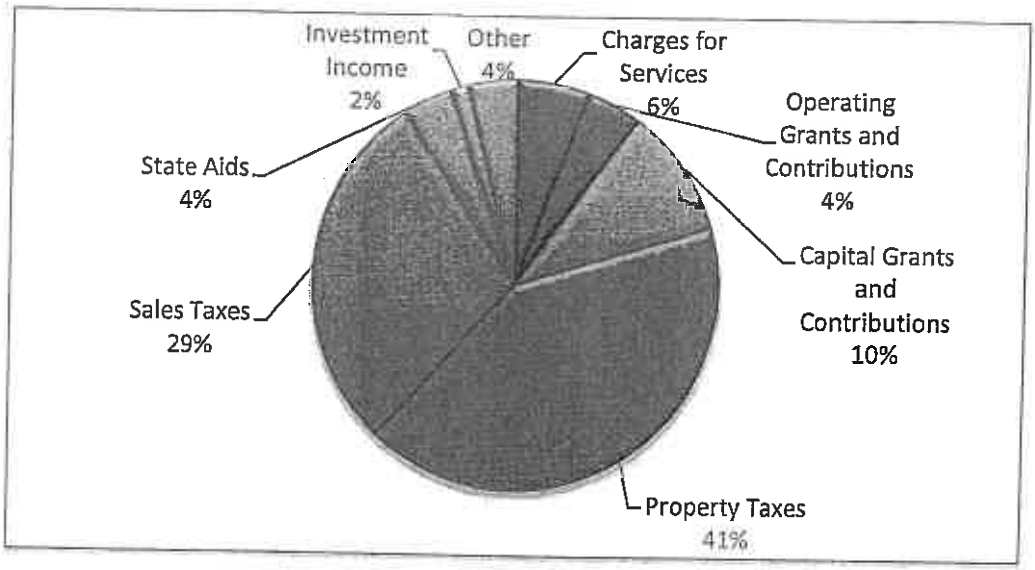
	Governmental Activities			Business-type Activities			Total		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Revenues:									
Program Revenues:									
Charges for Services	$ 504,836	$ 406,412	$ 434,914	$ 2,532,134	$ 2,486,602	$ 2,392,172	$ 3,036,970	$ 2,893,014	$ 2,827,086
Operating Grants and Contributions	384,033	238,365	206,814				384,033	238,365	206,814
Capital Grants and Contributions	891,617	4,049,908	2,635,647			900,000	891,617	4,049,908	3,535,647
General Revenues:									
Property Taxes	3,622,981	3,524,714	3,395,108				3,622,981	3,524,714	3,395,108
Sales Tax	2,511,209	2,056,614	1,204,188				2,511,209	2,056,614	1,204,188
State Aids	355,866	338,423	337,051				355,866	338,423	337,051
Investment Income	128,468	(51,873)	64,117	129,353	(57,104)	64,240	257,821	(108,977)	128,357
Other	343,473	322,314	416,097	234,976	185,091	181,119	578,449	507,405	597,216
Total Revenues	8,742,483	10,884,877	8,693,936	2,896,463	2,614,589	3,537,531	11,638,946	13,499,466	12,231,467
Expenses:									
Program Expenses:									
General Government	1,232,889	1,138,764	996,640				1,232,889	1,138,764	996,640
Public Safety	2,923,221	2,838,374	2,556,162				2,923,221	2,838,374	2,556,162
Public Works	1,319,616	1,027,987	1,991,361				1,319,616	1,027,987	1,991,361
Special Assessments		591,833	86,217					591,833	86,217
Cemetery	1,554	968	2,023				1,554	968	2,023
Recreation	178,288	184,007	167,938				178,288	184,007	167,938
Economic Development	68,782	48,455	61,174				68,782	48,455	61,174
Cable TV	18,503	25,591	16,625				18,503	25,591	16,625
Interest and Fiscal Charges	811,743	821,979	1,397,903				811,743	821,979	1,397,903
Water Utility				1,335,674	1,206,998	1,140,710	1,335,674	1,206,998	1,140,710
Sewer Disposal				1,271,428	1,147,990	1,186,116	1,271,428	1,147,990	1,186,116
Street Lighting				37,212	50,528	44,570	37,212	50,528	44,570
Total Expenses	6,554,596	6,677,958	7,276,043	2,644,314	2,405,516	2,371,396	9,198,910	9,083,474	9,647,439
Changes in Net Position Before Transfers	2,187,887	4,206,919	1,417,893	252,149	209,073	1,166,135	2,440,036	4,415,992	2,584,028
Transfers	79,165	(2,407,880)	(69,009)	(79,165)	2,407,880	69,009			-
Change in Net Position	2,267,052	1,799,039	1,348,884	172,984	2,616,953	1,235,144	2,440,036	4,415,992	2,584,028
Net Position, Beginning of Year, Restated	11,117,334	9,318,298	7,969,414	40,807,766	38,190,813	36,955,669	51,925,100	47,509,111	44,925,083
Net Position, End of Year	$ 13,384,386	$ 11,117,337	$ 9,318,298	$40,980,750	$40,807,766	$ 38,190,813	$54,365,136	$51,925,103	$ 47,509,111

CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

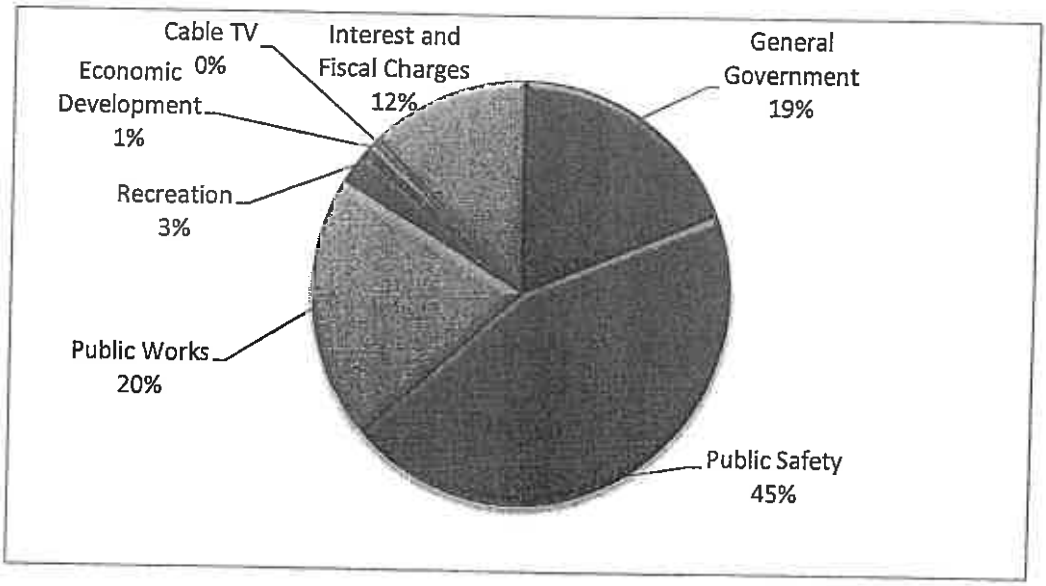
Governmental Activities

Revenues (excluding the capital grants and contributions for special assessment projects) for the City's governmental activities decreased by $2,142,391. This decrease was mostly due to special assessment revenue recognized in the prior year.

Revenues by Source – Governmental Activities



Expenses by Function – Governmental Activities



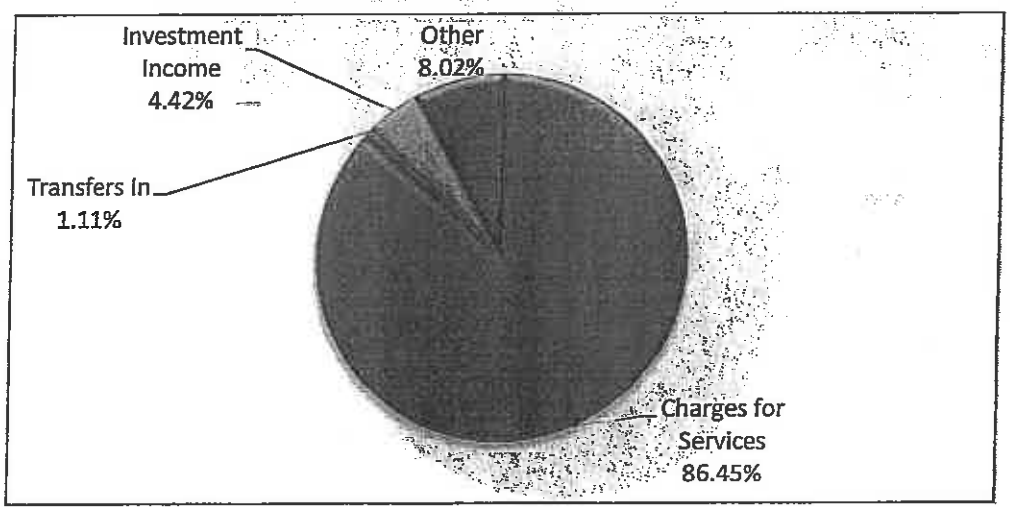
CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Business-Type Activities

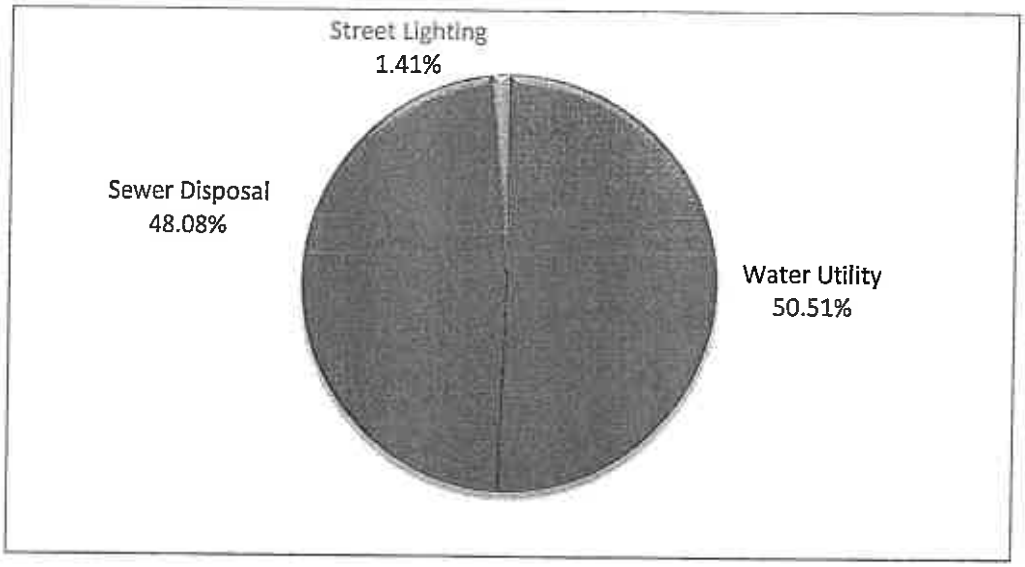
Revenues, excluding capital contributions, of the City's business-type activities increased by 10.5 percent ($2,896,463 in 2014 compared to $2,614,588 in 2013), and expenses increased by 10 percent. The factors driving these results include:

- The City purchases water from the City of Duluth. The City of Duluth implemented a series of rate increases to repair its infrastructure.
- One increase was made in the water and sewer rates.
- A cold winter caused numerous water mains breaks and reduced rates to residents who needed to continually run water to prevent freezing.
- Operating expenses increased 10% from 2013 to 2014 primarily due to an increase of water main losses and repair of water lines.
- The City implemented a radio read meter system that spanned a five-year period, allowing the City to utilize accurate and timely meter readings to improve the billing process. At the end of 2014 there were only six utility customers who needed radio read meters installed.

Revenues by Source – Business-Type Activities



Expenses by Function – Business-Type Activities



Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet on page 22), reported a combined fund balance of $11,787,607, which is above last year's total of $8,574,919. *Committed, assigned, and unassigned fund balance,* which is available for spending at the government's discretion, has a balance of $3,994,434 at year-end. The remainder of fund balance is *nonspendable or restricted* to indicate that it is not available for new spending because it has already been obligated 1) to pay debt service ($7,630,345), 2) for prepaid items ($90,910), 3) For municipal state aid ($37,754) for DWI prosecution ($12,888), 4) for DWI enforcement ($9,034), 5) for park improvements ($12,086), and 6) other restrictions ($158).

General Fund - The General Fund is the chief operating fund of the City of Hermantown. The end of the current fiscal year, the unassigned fund balance of the General Fund was $3,227,296, while total General Fund balance was $3,423,633. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total General Fund balance to total fund expenditures. Unassigned fund balance represents 74 percent of the total subsequent year General Fund expenditures, while total fund balance represents 79 percent of that same amount.

CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

During the current year, the fund balance for the City of Hermantown's General Fund increased by $379,306. Key factors in this growth are as follows:

- Revenues in the General Fund increased from the prior year by $368,953 in the following functions: Charges for service by $140,071, Property tax collection by $85,348, Investment Income by $69,841, and licenses and permits by $62,401.
- Department expenses in the General Fund increased from the prior year by $127,444, mostly in the function of public safety.
- Revenues exceeded budget by $166,507 (intergovernmental by $52,145 and investment Income by $33,853) .
- Expenditures were under budget by $66,453.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for the General Fund resulted in a $127,639 increase in revenues over expenditures. Budget amendments approved by the City Council for 2014 are shown in the following table:

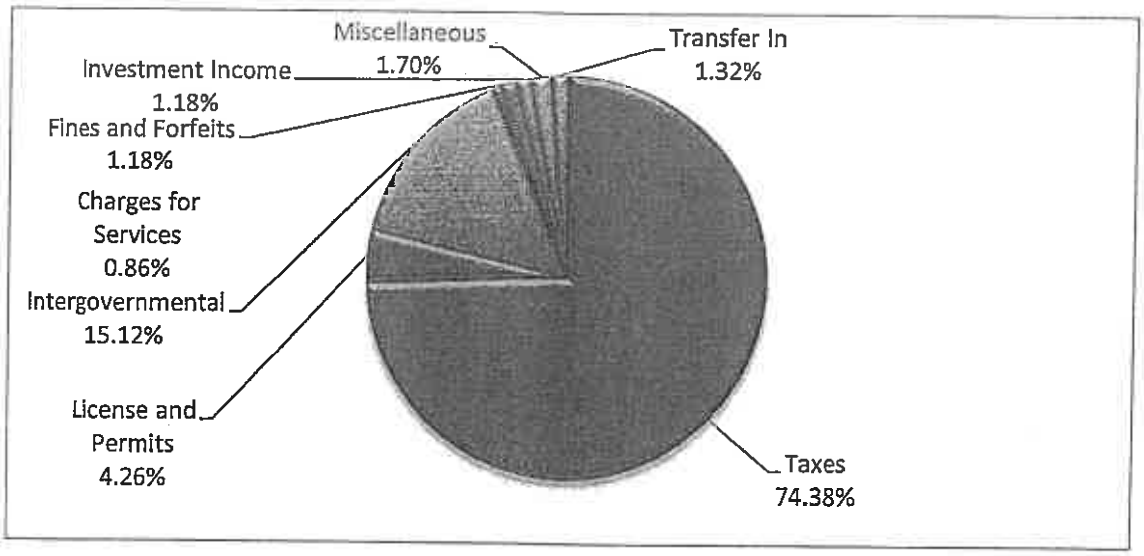
Description	Original Amount	Change	Amended Amount	Reason
Revenues				
Taxes	$ 3,384,192	$110,777	$3,494,969	Increase for Delinquent Taxes Received
Licenses & Permits	142,195	43,063	185,258	Increase for Additional Permits Received
Fees, Fines, Asset Sale	115,393	7,895	123,288	Increases in Permits, Development Agreement
Intergovernmental	548,483	116,231	664,714	Grants
Interest & Miscellaneous	29,000	14,917	43,917	Interest Income, Insurance Recoveries
Transfer In	40,000	(2,500)	37,500	No Construction Project Administration
Total	$ 4,259,263	$290,383	$4,549,646	
Expenditures				
General Government	$ 903,578	$ 64,106	$ 967,684	Contracted Services, Capital Expenditures
Public Safety	2,629,712	56,121	2,685,833	Overtime, Ammo, K-9, Capital Expenditures
Public Works	606,226	12,728	618,954	Fuel
Cemetery	3,107	(60)	3,047	Temporary Personnel
Recreation	109,883	13,242	123,125	Temporary Personnel, Land Maintenance, Utilities
Transfers	15,000	6,700	21,700	Shortage in Construction Project
Capital Lease		9,907	9,907	Capital Lease - Mower Park Department
Total	$ 4,267,506	$162,744	$4,430,250	

Increase in Revenues Over Expenditures	$127,639

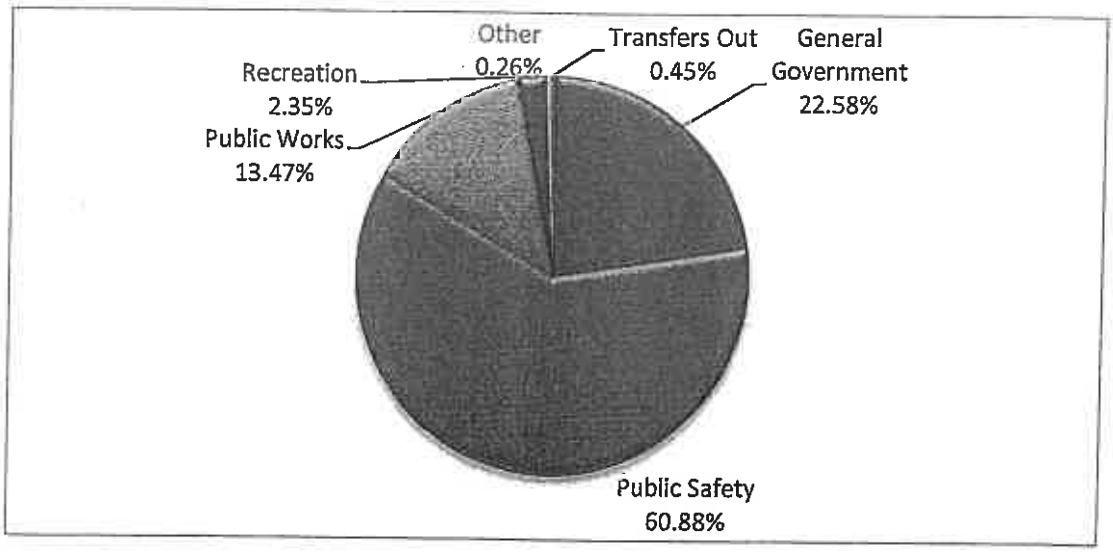
CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Actual revenues in the general fund exceeded budgeted amounts by $166,507, mostly due to the receipt of higher than expected charges for service, tax collections, and licenses and permits. Actual expenditures were below budget by $66,453.

Revenues by Source – General Fund



Expenses by Function – General Fund



CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

City Sales Tax Fund – This fund has a total fund balance of $2,888,214; $88 is nonspendable for prepaid items, and $2,888,126 is restricted for the payment of debt service. The net increase in fund balance during the current year in the City Sales Tax Fund was $1,080,738. The sales tax revenues were sufficient to cover the transfers out to the General Fund and bond funds for debt service payments.

G.O. Improvement & Utility Revenue Bonds, Series 2007B – This fund has a total fund balance of $77,331, which decreased by $104,198. The special assessment revenues and transfers in were sufficient to cover the bond payments of principal and interest; the remaining fund balance is restricted for debt service.

G.O. Improvement Bonds, Series 2009A – This fund has a total fund balance of $219,445, which increased by $42,497, and the remaining fund balance is restricted for debt service. The special assessment revenues and transfers in were sufficient to cover the bond payments of principal and interest.

General Obligation Bonds, Series 2010A – This fund has a total fund balance of $261,711, which increased by $23,389, and the remaining fund balance is restricted for debt service.

General Obligation Bonds, Series 2012B – This fund has a total fund balance of $1,068,701, which increased by $158,583, and the remaining fund balance is restricted for debt service.

Excess of Expenditures Over Appropriations

The following funds had expenditures exceeding appropriations at December 31, 2014:

	Final Budget	Actual Expenditures	Excess	
City Sales Tax Fund	$ 37,424	$ 37,800	$ 376	Salaries
Police Program Fund	2,527	2,939	412	Towing
General Obligation Bonds, Series 2014A Fund		47,070	47,070	Bond Expense

Proprietary Funds

Unrestricted net position of the Water Utility, Sewage Disposal, and Street Lighting funds at the end of the year amounted to $4,499,425. The total increase in net position for these funds was $172,984. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City of Hermantown's business-type activities.

CITY OF HERMANTOWN, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the City had $55,537,455 (net of accumulated depreciation) invested in a broad range of capital assets, including police and public works equipment, buildings, park facilities, roads, and water and sewer lines.

Major capital asset events during the current fiscal year included the following:

City of Hermantown, Minnesota's Capital Assets
(Net of Depreciation)

	Governmental Activities			Business-Type Activities			Totals		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Land	$ 1,581,454	$ 1,581,454	$ 1,685,363	$ 310,430	$ 310,430	$ 310,430	$ 1,891,884	$ 1,891,884	$ 1,995,793
Easements	219,437	219,437	219,437	297,084	297,084	297,084	516,521	516,521	516,521
Land Improvements - Permanent	200,317	200,317	200,317				200,317	200,317	200,317
Construction In Progress	606,118		2,043,448				606,118		2,043,448
Land Improvements	888,930	952,296	1,008,500				888,930	952,296	1,008,500
Buildings	7,638,889	7,948,276	8,259,788				7,638,889	7,948,276	8,259,788
Transmission System, Source of Supply and Pumping Plant				33,757,988	34,375,839	32,211,914	33,757,988	34,375,839	32,211,914
Equipment	867,748	728,699	716,476	485,034	489,321	504,362	1,352,782	1,218,020	1,220,838
Infrastructure	8,684,026	8,657,623	7,723,901				8,684,026	8,657,623	7,723,901
Total	$ 20,686,919	$ 20,288,102	$ 21,857,230	$ 34,850,536	$ 35,472,674	$ 33,323,790	$ 55,537,455	$ 55,760,776	$ 55,181,020

Additional information related to the City's capital assets is located in Note 6 of the financial statements.

Debt

At year-end, the City had $25,443,316 in bonds and notes outstanding versus $24,666,972 last year, a decrease of 3 percent.

As of December 31, 2014, the City maintained an "Aa3" rating from Moody's Investors Services on all of its general obligation debt except the Standard & Poors AA- rating assigned to the City's General Obligation Bond, Series 2009A and the City's General Obligation Bond, Series 2010A issued on November 16, 2010.

City of Hermantown, Minnesota's Outstanding Debt
General Obligation, Revenue Bonds, and Certificates Payable

	2014	2013	2012
Revenue Bonds	$ 7,265,000	$ 7,695,000	$ 8,040,000
General Obligation Special Assessment Bonds	17,965,000	16,880,000	20,155,000
Certificate of Indebtedness	186,023	56,335	92,686
Capital Lease	27,293	35,637	
Totals	$ 25,443,316	$ 24,666,972	$28,287,686

Additional information related to the City's long-term debt is located in Note 7 of the financial statements.

Economic Factors and Next Year's Budget and Rates

The following key indicators provide highlights on the City's economic outlook and future budget impact:

- Developments and Redevelopment Permits issued in 2014 were: 5 commercial/industrial development, 5 special use, 1 rezoning, 2 planned unit developments, 2 subdivisions, and 11 zoning code amendments. Developments include hotel, shopping center, large big box store, two convenience stores, and completion of twin homes.

- Anticipate water purchase expense to raise in 2016 in response to City of Duluth infrastructure repairs.

- Holiday Inn Express development will be constructed in 2015.

- The City increased the property tax levy by .08% for tax year 2015. At the December 2014 Truth and Taxation meeting, the City Council approved the tax rate increase from 36.175% to 36.207%.

- Local Government Aid (LGA) for 2014 - Governor Dayton signed the 2013 omnibus bill into law as Chapter 143. This chapter contains the first significant reform to the LGA program since 2003, as well as an increase to the appropriation for city aid programs. The LGA calculation will continue to utilize a comparison of each city's need as measured by a variety of demographic factors with its "capacity" as measured by the city's adjusted net tax capacity multiplied by the statewide "need" based on its defined "capacity" the city will receive LGA. If the city has not gap of if capacity exceeds it need the city will not receive LGA. For cities between 2,500 and 10,000 population: three factors will be used in the calculation of city need; 1) the percentage of city's housing stock built before 1940, 2) the average household size, and 3) the population decline (%) from the city's peak population of the last 40 years. Hermantown LGA for 2014 will increase by $23,697, for total of $355,570. Hermantown LGA for 2015 will decrease by $96,059, for a total of $259,511.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the City Finance Department at 5105 Maple Grove Road, Hermantown, MN 55811, or visit the City's website at www.hermantownmn.com.

CITY OF HERMANTOWN, MINNESOTA

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

CITY OF HERMANTOWN, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	Governmental Activities	Business-Type Activities	Totals 2014	Totals 2013
ASSETS				
Cash and Investments	$ 11,784,984	$ 5,564,617	$17,349,601	$ 13,645,757
Accounts Receivable	754,750	573,494	1,328,244	953,075
Interest Receivable	7,803	8,626	16,429	13,676
Taxes Receivable	161,736		161,736	158,958
Development Agreement Fees Receivable	92,342		92,342	107,796
Special Assessments Receivable	7,186,756	4,813	7,191,569	7,866,918
Contracts Receivable, Current Portion		28,721	28,721	6,182
Internal Balances	(350,000)	350,000		
Inventories		60,036	60,036	59,151
Prepaid Items	90,910	12,566	103,476	79,908
Contracts Receivable, Long-Term Portion		2,073	2,073	27,051
Capital Assets, Net of Depreciation				
Assets Not Being Depreciated	2,607,328	607,514	3,214,840	2,608,722
Assets Being Depreciated, Net	18,079,593	34,243,022	52,322,615	53,152,054
Total Assets	40,396,200	41,475,482	81,871,682	78,679,248
Deferred Outflows of Resources				
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 40,396,200	$ 41,475,482	$81,871,682	$ 78,679,248
LIABILITIES				
Accounts Payable	$ 402,062	$ 183,779	$ 585,841	$ 665,989
Wages Payable	79,427	11,317	90,744	107,246
Deposits	31,860	15,200	47,060	49,025
Accrued Interest	315,125		315,125	332,370
Deferred Revenue		213,823	213,823	263,553
Bonds Payable:				
Special Assessment Debt With Governmental Commitment Due Within One Year	2,015,745		2,015,745	1,085,745
Special Assessment Debt With Governmental Commitment Due In More Than One Year	15,958,387		15,958,387	15,804,132
Other Bonds Due Within One Year	375,555		375,555	469,210
Other Bonds Due In More Than One Year	6,986,913		6,986,913	7,330,200
Certificates of Indebtedness- Due Within One Year	65,974		65,974	
Due In More Than One Year	120,049		120,049	
Capital Lease - Due Within One Year	8,710		8,710	8,344
Due In More Than One Year	18,583		18,583	27,293
Compensated Absences Payable:				
Due Within One Year	110,000	25,000	135,000	144,976
Due In More Than One Year	137,920	45,613	183,533	143,776
Other Postemployment Benefits:				
Due In More Than One Year	385,501		385,501	322,286
Total Liabilities	27,011,811	494,732	27,506,543	26,754,145
Deferred Inflows of Resources				
NET POSITION				
Net Investment In Capital Assets	13,160,927	34,850,536	48,011,463	47,447,976
Restricted for:				
Other State Funds	37,754		37,754	-
DWI Enforcement	12,888		12,888	669
DWI Prosecution	9,034		9,034	9,054
Public Safety Expo	158		158	158
Park Improvements	12,086		12,086	10,077
Debt Service	9,697,790		9,697,790	8,721,339
Replacement, Depreciation & Development		1,630,789	1,630,789	1,630,790
Unrestricted	(9,546,248)	4,499,425	(5,046,823)	(5,894,959)
Total Net Position	13,384,389	40,980,750	54,365,139	51,925,103
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 40,396,200	$ 41,475,482	$81,871,682	$ 78,679,248

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals 2014	Totals 2013
Governmental Activities								
General Government	$ 1,232,889	$ 101,146	$	$	$ (1,131,743)	$	$ (1,131,743)	$ (1,060,158)
Public Safety	2,923,221	291,871	295,993		(2,335,357)		(2,335,357)	(2,442,248)
Public Works	1,319,616		69,290	798,884	(451,442)		(451,442)	385,405
Special Assessment				92,733	92,733		92,733	2,109,683
Cemetery	1,554	760			(794)		(794)	(213)
Recreation	178,288	64,445			(113,843)		(113,843)	(127,829)
Economic Development	68,782	3,770	18,750		(46,262)		(46,262)	(44,184)
Cable TV	18,503	42,844			24,341		24,341	18,252
Interest and Fiscal Charges	811,743				(811,743)		(811,743)	(821,979)
Total Governmental Activities	6,554,596	504,836	384,033	891,617	(4,774,110)		(4,774,110)	(1,983,271)
Business-Type Activities								
Water Utility	1,335,674	1,188,397				(147,277)	(147,277)	5,150
Sewage Disposal	1,271,428	1,215,540				(55,888)	(55,888)	27,454
Street Lighting	37,212	128,197				90,985	90,985	48,480
Total Business-Type Activities	2,644,314	2,532,134				(112,180)	(112,180)	81,084
Total Primary Government	$ 9,198,910	$ 3,036,970	$ 384,033	$ 891,617	(4,774,110)	(112,180)	(4,886,290)	(1,902,187)
General Revenues								
Property Taxes					3,622,981		3,622,981	3,524,714
Sales Taxes					2,511,209		2,511,209	2,056,614
State Aids					355,866		355,866	338,423
Investment Income					128,468	129,353	257,821	(108,977)
Other					343,473	234,976	578,449	507,405
Transfers					79,165	(79,165)		
Total General Revenues and Transfers					7,041,162	285,164	7,326,326	6,318,179
Change in Net Position					2,267,052	172,984	2,440,036	4,415,992
Net Position, January 1					11,117,337	40,807,766	51,925,103	47,509,111
Net Position, December 31					$ 13,384,389	$ 40,980,750	$ 54,365,139	$ 51,925,103

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	General Fund	City Sales Tax Fund	General Obligation Improvement & Utility Revenue Bonds Series 2007B Fund	General Obligation Improvement Bonds Series 2009A Fund	General Obligation Improvement Bonds Series 2010A Fund	General Obligation Improvement Bonds Series 2012B Fund	Other Governmental Funds	Total Governmental 2014	Total Governmental 2013
Assets									
Cash and Temporary Cash Investments	$ 1,540,697	$ 1,069,901	$ 78,549	$ 218,074	$ 258,947	$ 1,062,672	$ 2,188,311	$ 6,413,151	$ 4,861,128
Investments	1,686,086	1,003,582					348,241	3,037,909	2,708,417
Cash and Investments Held in Escrow							2,313,924	2,313,924	760,294
Accounts Receivable	117,599		58	60	184	475	245,829	364,205	254,566
Interest Receivable	6,130	904					769	7,803	7,963
Property Tax Receivable	156,424			2,108			3,204	161,736	158,958
Sales Tax Receivable		390,545						390,545	357,995
Development Agreement Fees Receivable							92,342	92,342	107,796
Special Assessments Receivable			1,241,953	1,342,997	1,148,953	2,138,703	1,314,150	7,186,756	7,634,905
Due From Other Funds	210,997	424,758						635,755	1,328,839
Prepaid Items	89,751	88					1,071	90,910	68,340
Advance To Other Funds							150,000	150,000	644,380
Total Assets	3,807,684	2,889,778	1,318,560	1,563,239	1,408,084	3,201,850	6,655,841	20,845,036	18,893,581
Deferred Outflows of Resources									
Total Assets and Deferred Outflows of of Resources	$ 3,807,684	$ 2,889,778	$ 1,318,560	$ 1,563,239	$ 1,408,084	$ 3,201,850	$ 6,655,841	$ 20,845,036	$18,893,581
Liabilities									
Accounts Payable	$ 153,148	$ 625	$	$	$	$	$ 207,134	$ 360,907	$ 236,556
Contracts Payable							36,955	36,955	117,340
Accrued Wages Payable	78,316	939					172	79,427	95,198
Due to Other Governments							4,200	4,200	4,200
Due To Other Funds							635,755	635,755	1,328,839
Deposits	26,860						5,000	31,860	33,825
Advance From Other Funds							500,000	500,000	644,380
Unearned Revenue							104,358	104,358	104,181
Total Liabilities	258,324	1,564					1,493,574	1,753,462	2,564,520
Deferred Inflow of Resources									
Delinquent Property Taxes	125,727			1,543			2,885	130,135	125,724
Unavailable Special Assessments			628,249	1,134,240	930,809	1,792,189	603,689	5,089,176	5,502,159
Unavailable Sp. Assmts, WAC, SAC, Sr. Ct			612,980	208,011	215,564	340,960	707,141	2,084,656	2,126,260
Total Deferred Inflows of Resources	125,727		1,241,229	1,343,794	1,146,373	2,133,149	1,313,695	7,303,967	7,754,142
Fund Balances									
Nonspendable	89,751	88					1,071	90,910	77,831
Restricted		2,888,126	77,331	219,445	261,711	1,068,701	3,186,949	7,702,263	4,123,318
Committed	108,586						1,233,115	1,339,701	1,489,628
Assigned							502,597	502,597	490,264
Unassigned	3,227,296						(1,075,160)	2,152,136	2,393,878
Total Fund Balance	3,423,633	2,888,214	77,331	219,445	261,711	1,068,701	3,848,572	11,787,607	8,574,919
Total Liabilities, Deferred inflows of Resources, and Fund Balances	$ 3,807,684	$ 2,889,778	$ 1,318,560	$ 1,563,239	$ 1,408,084	$ 3,201,850	$ 6,655,841	$ 20,845,036	$18,893,581

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014
With Comparative Amounts for the Year Ended December 31, 2013

Amounts reported for governmental activities in the statement of net position are different because:

	2014	2013
Total governmental fund balances (Page 22)	$ 11,787,607	$ 8,574,919
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,686,919	20,288,103
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	7,408,325	7,858,323
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(26,498,462)	(25,604,008)
Net position of governmental activities (Page 20)	$ 13,384,389	$ 11,117,337

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	General Fund	City Sales Tax Fund	General Obligation Improvement & Utility Revenue Bonds Series 2007B Fund	General Obligation Improvement Bonds Series 2009A Fund	General Obligation Improvement Bonds Series 2010A Fund	General Obligation Improvement Bonds Series 2012B Fund	Other Governmental Funds	Total Governmental Funds 2014	Total Governmental Funds 2013
Revenues									
Taxes	$ 3,526,625	$ 2,511,209	$	$ 65,796	$	$	$ 83,404	$ 6,187,034	$ 5,646,956
Licenses and Permits	202,154						22,400	224,554	166,077
Intergovernmental	716,859					4,290	817,634	1,538,783	906,050
Charges for Services	40,856						63,310	103,966	95,826
Fines and Forfeits	55,794						17,924	73,718	61,638
Special Assessments			116,368	194,540	134,630	214,646	174,141	834,325	1,025,649
Investment Income	55,853	68,367					4,247	128,467	(51,872)
Development Agreement Fees	14,967						8,326	23,293	16,299
Rents	22,447						8,087	30,534	24,642
Conduit Financing Fees							2,770	2,770	2,770
Donations							1,741	1,741	3,681
Miscellaneous	43,298							43,298	49,328
Total Revenues	4,678,653	2,579,576	116,368	260,336	134,630	218,936	1,203,984	9,192,483	7,947,044
Expenditures									
Current									
General Government	985,060						53,908	1,038,968	952,885
Public Safety	2,655,639						77,439	2,733,078	2,480,144
Public Works	587,506							587,506	595,132
Cemetery	1,554							1,554	968
Recreation	102,431							102,431	85,502
Economic Development		37,800					30,605	68,405	47,290
Cable TV							17,192	17,192	16,345
Capital Outlay									
General Government									31,299
Public Safety									115,753
Public Works							1,513,717	1,513,717	114,647
Special Assessment							(8,515)	(8,515)	1,300,246
Recreation									51,210
Cable TV							624	624	8,739
Debt Service									
Principal Retirement			90,000	285,000	300,000		877,312	1,552,312	1,371,351
Interest & Fiscal Charges			71,586	165,878	93,809	69,640	382,099	783,012	860,642
Bond Expense							46,970	46,970	
Other Debt Principal - Lease	8,344							8,344	
Other Interest - Lease	1,563							1,563	
Total Expenditures	4,342,097	37,800	161,586	450,878	393,809	69,640	2,991,351	8,447,161	8,032,153
Excess (Deficiency) of Revenues Over (Under) Expenditures	336,556	2,541,776	(45,218)	(190,542)	(259,179)	149,296	(1,787,367)	745,322	(85,108)
Other Financing Sources (Uses)									
Sale of Capital Assets									30,181
Principal paid from escrow									(2,285,000)
Transfer In	62,500		91,021	233,039	291,083	9,288	1,343,913	2,030,844	5,231,375
Transfer Out	(19,750)	(1,461,038)	(150,000)		(8,515)		(312,376)	(1,951,679)	(4,884,529)
Refund & Reimbursement									(110,722)
Issuance of Certificate of Indebtedness							167,000	167,000	
Discount on Long-Term Debt							(20,296)	(20,296)	
Bond Issuance							2,170,000	2,170,000	
Premium							71,499	71,499	
Inception of Capital Lease Agreement									40,637
Other Long-Term Obligation Principal									(5,000)
Total Other Financing Sources (Uses)	42,750	(1,461,038)	(58,979)	233,039	282,568	9,288	3,419,740	2,467,368	(1,983,058)
Net Change in Fund Balances	379,306	1,080,738	(104,198)	42,497	23,389	158,583	1,632,373	3,212,688	(2,068,165)
Fund Balances, January 1,	3,044,327	1,807,476	181,529	176,948	238,322	910,117	2,216,199	8,574,919	10,643,084
Fund Balances, December 31	$ 3,423,633	$ 2,888,214	$ 77,331	$ 219,445	$ 261,711	$ 1,068,701	$ 3,848,572	$ 11,787,607	$ 8,574,919

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Amounts for the Year Ended December 31, 2013

Amounts reported for governmental activities in the statement of activities are different because:

	2014	2013
Net change in fund balances - Total governmental funds (Page 24)	$ 3,212,688	$ (2,068,165)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.	398,816	(1,569,126)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(449,998)	1,904,139
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(3,692)	(41,453)
Postemployment benefits are funded on a pay-as-you go basis in the governmental fund financial statements. The actuarially determined annual required contribution is recorded in the government-wide financial statements.	(63,215)	(47,067)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(827,547)	3,620,716
Change in net position of governmental activities (Page 21)	$ 2,267,052	$ 1,799,044

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	Budget				2013
	Original	Final	Actual	Variance	Actual
Revenues					
Taxes	$ 3,384,192	$ 3,494,969	$ 3,526,625	$ 31,656	$ 3,441,277
Licenses and Permits	142,195	185,258	202,154	16,896	139,753
Intergovernmental	548,483	664,714	716,859	52,145	576,788
Charges for Services	31,754	39,603	40,656	1,053	33,757
Fines and Forfeits	58,200	58,015	55,794	(2,221)	52,531
Investment Income	22,000	22,000	55,853	33,853	(13,988)
Development Agreement Fees		3,381	14,967	11,586	8,956
Rents	22,439	22,289	22,447	158	21,966
Miscellaneous	7,000	21,917	43,298	21,381	48,660
Total Revenues	4,216,263	4,512,146	4,678,653	166,507	4,309,700
Expenditures					
Current					
General Government					
Council	32,822	36,000	35,827	173	29,542
Executive	4,800	4,800	3,481	1,319	4,521
Mayor	9,865	9,971	9,910	61	8,893
Elections	18,280	13,209	13,485	(276)	532
Administration & Finance	441,585	411,582	396,733	14,849	543,908
City Attorney	50,000	50,000	40,252	9,748	40,319
Planning & Zoning	176,388	233,862	284,268	(50,406)	172,999
Health Insurance Consultant					22
City Hall Building Maintenance	160,120	197,410	190,323	7,087	168,562
Insurance	9,718	10,850	10,781	69	14,886
Total General Government	903,578	967,684	985,060	(17,376)	984,184
Public Safety					
Police Administration	2,010,703	2,011,698	1,987,451	24,247	1,863,719
Fire Administration	455,207	489,270	490,162	(892)	457,005
Firehall #1	52,897	66,897	69,596	(2,699)	55,852
Firehall #2	4,308	5,026	4,567	459	3,540
Firehall #3	8,158	11,037	11,182	(145)	9,678
Building Inspection	95,439	97,805	88,881	8,924	93,015
Poundmaster	3,000	4,100	3,800	300	4,768
Total Public Safety	2,629,712	2,685,833	2,655,639	30,194	2,487,577
Public Works					
Street Department	543,133	560,121	546,816	13,305	513,856
City Engineer	22,000	22,000	17,022	4,978	29,360
City Garage	41,093	36,833	23,668	13,165	52,089
Total Public Works	606,226	618,954	587,506	31,448	595,305
Cemetery	3,107	3,047	1,554	1,493	968
Recreation					
Parks	84,717	90,097	74,816	15,281	110,155
Community Building	25,166	33,028	27,615	5,413	26,557
Total Recreation	109,883	123,125	102,431	20,694	136,712
Debt Service					
Other Debt Principal - Lease		8,344	8,344		5,000
Other Interest - Lease		1,563	1,563		
Total Debt Service		9,907	9,907		5,000
Total Expenditures	4,252,506	4,408,550	4,342,097	66,453	4,209,746
Excess (Deficiency) of Revenues Over (Under) Expenditures	(36,243)	103,596	336,556	232,960	99,954
Other Financing Sources (Uses)					
Sale of Capital Assets	3,000				30,183
Transfer In	40,000	37,500	62,500	25,000	67,770
Transfer Out	(15,000)	(21,700)	(19,750)	1,950	(15,000)
Inception of Capital Lease Agreement					40,637
Total Financing Sources (Uses)	28,000	15,800	42,750	26,950	123,590
Net Change in Fund Balance	(8,243)	119,396	379,306	259,910	223,544
Fund Balance, January 1	3,044,327	3,044,327	3,044,327		2,820,783
Fund Balance, December 31	$ 3,036,084	$ 3,163,723	$ 3,423,633	$ 259,910	$ 3,044,327

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
CITY SALES TAX FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	Budget				2013
	Original	Final	Actual	Variance	Actual
Revenues					
Taxes					
Sales Taxes	$2,410,000	$2,410,000	$ 2,511,209	$ 101,209	$2,056,614
Investment Income	35,500	35,500	68,367	32,867	(41,457)
Total Revenues	2,445,500	2,445,500	2,579,576	134,076	2,015,157
Expenditures					
Current					
Economic Development	37,129	37,424	37,800	(376)	36,006
Total Expenditures	37,129	37,424	37,800	(376)	36,006
Excess Revenues Over Expenditures	2,408,371	2,408,076	2,541,776	133,700	1,979,151
Other Financing Uses					
Transfers Out	(1,403,497)	(1,436,038)	(1,461,038)	25,000	(1,601,156)
Net Change in Fund Balance	1,004,874	972,038	1,080,738	158,700	377,995
Fund Balance, January 1	1,807,476	1,807,476	1,807,476		1,429,481
Fund Balance, December 31	$2,812,350	$2,779,514	$ 2,888,214	$ 158,700	$1,807,476

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	Business-Type Activities Enterprise Funds				
	Major Funds		Nonmajor Fund	Total Enterprise Funds	
	Water Utility Fund	Sewage Disposal Fund	Street Lighting Fund	2014	2013
Current Assets					
Cash and Temporary Cash Investments	$ 1,302,987	$ 1,716,261	$	$ 3,019,248	$ 3,039,427
Investments	1,632,020	574,592	358,757	2,565,369	2,276,494
Accounts Receivable	168,582	368,645	36,267	573,494	340,513
Interest Receivable	6,205	1,426	995	8,626	5,713
Current Portion of Contracts Receivable	6,579	22,142		28,721	6,182
Due From Other Funds		143,388		143,388	
Advance from other funds			350,000	350,000	
Inventories	47,881	12,155		60,036	59,151
Prepaid Items	5,301	7,265		12,566	11,568
Total Current Assets	3,169,555	2,845,874	746,019	6,761,448	5,739,048
Long-Term Assets					
Capital Assets, Net of Depreciation					
Assets Not Being Depreciated	221,869	385,645		607,514	607,514
Assets Being Depreciated	7,657,658	26,574,668	10,696	34,243,022	34,865,159
Total Capital Assets, Net of Depreciation	7,879,527	26,960,313	10,696	34,850,536	35,472,673
Long-Term Portion of Contracts Receivable	621	1,452		2,073	27,051
Special Assessments Receivable, Delinquent	4,813			4,813	232,013
Total Long-Term Assets	7,884,961	26,961,765	10,696	34,857,422	35,731,737
Deferred Outflows of Resources					
Total Assets and Deferred Outflows of Resources	$ 11,054,516	$ 29,807,639	$ 756,715	$41,618,870	$41,470,785
Current Liabilities					
Accounts Payable	$ 101,538	$ 76,013	$ 6,228	$ 183,779	$ 102,607
Wages Payable	6,627	4,690		11,317	12,047
Due to Other Funds			143,388	143,388	205,286
Compensated Absences	15,000	10,000		25,000	20,454
Deposits	15,200			15,200	15,200
Deferred Revenue	32,063	181,760		213,823	263,553
Total Current Liabilities	170,428	272,463	149,616	592,507	619,147
Noncurrent Liabilities					
Compensated Absences	27,368	18,245		45,613	43,872
Total Liabilities	197,796	290,708	149,616	638,120	663,019
Deferred Inflows of Resources					
Net Position					
Net Investment Capital Assets	7,879,527	26,960,313	10,696	34,850,536	35,472,673
Restricted for Replacement, Depreciation, & Development	628,447	1,002,342		1,630,789	1,630,790
Unrestricted	2,348,746	1,554,276	596,403	4,499,425	3,704,303
Total Net Position	10,856,720	29,516,931	607,099	40,980,750	40,807,766
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,054,516	$ 29,807,639	$ 756,715	$41,618,870	$41,470,785

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	Business-type Activities Enterprise Funds				
	Major Funds		Nonmajor Fund	Total Enterprise Funds	
	Water Utility Fund	Sewage Disposal Fund	Street Lighting Fund	2014	2013
Operating Revenues					
User Fees	$ 1,109,121	$ 1,147,910	$ 128,197	$ 2,385,228	$ 2,344,265
Service Charges	79,276	67,630		146,906	142,337
Total Operating Revenues	1,188,397	1,215,540	128,197	2,532,134	2,486,602
Operating Expenses					
Personal Services	269,105	187,938		457,043	414,991
Water Purchases	764,016			764,016	686,404
WLSSD Charges		475,937		475,937	427,423
Electricity Charges			31,227	31,227	26,703
Maint., Supplies & Operational Expenses	114,829	95,143	2,599	212,571	187,211
Utilities	9,959	11,463		21,422	18,636
Professional Services	3,813	5,287	170	9,270	18,594
Insurance	2,916	6,675		9,591	13,019
Total Operating Expenses	1,164,638	782,443	33,996	1,981,077	1,792,981
Operating Income Before Depreciation	23,759	433,097	94,201	551,057	693,621
Less Depreciation Expense	(171,036)	(488,985)	(3,216)	(663,237)	(612,535)
Net Operating Income (Loss)	(147,277)	(55,888)	90,985	(112,180)	81,086
Nonoperating Revenues					
Hookups and Miscellaneous Income	115,117	119,859		234,976	185,091
Investment Income (Loss)	109,654	11,688	8,011	129,353	(57,104)
Total Nonoperating Revenues	224,771	131,547	8,011	364,329	127,987
Net Income Before Transfers and Contributions	77,494	75,659	98,996	252,149	209,073
Contributed Capital From Governmental Activities					2,731,925
Transfers In	32,541			32,541	
Transfers Out	(48,787)	(60,419)	(2,500)	(111,706)	(324,045)
Total Transfers	(16,246)	(60,419)	(2,500)	(79,165)	(324,045)
Change In Net Position	61,248	15,240	96,496	172,984	2,616,953
Net Position, January 1	10,795,472	29,501,691	510,603	40,807,766	38,190,813
Net Position, December 31	$ 10,856,720	$ 29,516,931	$ 607,099	$ 40,980,750	$ 40,807,766

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	Business-Type Activities Enterprise Funds				
	Major Funds		Nonmajor Fund	Total Enterprise Funds	
	Water Utility Fund	Sewage Disposal Fund	Street Lighting Fund	2014	2013
Cash Flows from Operating Activities					
Receipts from Users	$1,167,539	$ 1,012,609	$ 119,005	$ 2,299,153	$2,487,431
Payments to Employees	(265,782)	(185,704)		(451,486)	(413,024)
Payments to Suppliers	(1,011,593)	(605,738)	(32,699)	(1,650,030)	(1,325,460)
Interfund Receipts/Payments		(143,388)	(206,612)	(350,000)	
Cash Received From Hookups and Miscellaneous Income	110,827	301,619		412,446	210,006
Net Cash Provided by (Used In) Operating Activities	991	379,398	(120,306)	260,083	958,953
Cash Flows From Noncapital Financing Activities					
Transfers In	32,541			32,541	
Transfers Out	(48,787)	(60,419)	(2,500)	(111,706)	(324,045)
Net Cash Used in Noncapital Financing Activities	(16,246)	(60,419)	(2,500)	(79,165)	(324,045)
Cash Flows From Capital and Related Financing Activities					
Acquisition and Construction of Capital Assets	(39,483)	(1,617)		(41,100)	(29,493)
Cash Received on Contracts	(839)	3,279		2,440	6,589
Net Cash Provided by (Used in) Capital and Related Financing Activities	(40,322)	1,662		(38,660)	(22,904)
Cash Flows From Investing Activities					
Investment Income	30,213	9,831	7,476	47,520	46,837
Purchase of Investments	(337,027)	(809,930)		(1,146,957)	(468,665)
Sale of Investments	337,000	600,000		937,000	791,123
Net Cash Provided by (Used In) Investing Activities	30,186	(200,099)	7,476	(162,437)	369,295
Net Increase (Decrease) In Cash	(25,391)	120,542	(115,330)	(20,179)	981,299
Cash and Temporary Cash Investments, Beginning of Year	1,328,378	1,595,719	115,330	3,039,427	2,058,128
Cash and Temporary Cash Investments, End of Year	$1,302,987	$ 1,716,261	$	$ 3,019,248	$3,039,427

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013
(Continued)

	Business-type Activities Enterprise Funds				
	Major Funds		Nonmajor Fund	Total Enterprise Funds	
	Water Utility Fund	Sewage Disposal Fund	Street Lighting Fund	2014	2013
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating Income (Loss)	$ (147,277)	$ (55,888)	$ 90,985	$ (112,180)	$ 81,086
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Hookups and Miscellaneous Income	110,827	301,619		412,446	210,006
Depreciation	171,036	488,985	3,216	663,237	612,535
(Increase) Decrease in Current Assets					
Accounts Receivable	(20,859)	(202,930)	(9,192)	(232,981)	830
Prepaid Items	(376)	(622)		(998)	(950)
Due From Other Funds		(143,388)	(206,612)	(350,000)	-
Inventories	(1,671)	786		(885)	(23)
Increase (Decrease) in Current Liabilities					
Accounts Payable	(114,012)	(11,397)	1,297	(124,112)	53,503
Wages Payable	(449)	(282)		(731)	225
Compensated Absences Payable	3,772	2,515		6,287	1,741
Total Adjustments	148,268	435,286	(211,291)	372,263	877,867
Net Cash Provided By (Used In) Operating Activities	$ 991	$ 379,398	$ (120,306)	$ 260,083	$ 958,953
Non Cash Investing and Capital Activities					
Unrealized Loss on Investments	$ (2,423)	$ (1,672)	$ (1,848)	$ (5,943)	$ (104,143)
Capital Assets Contributed by Governmental Funds					2,731,925

The accompanying notes are an integral part of these financial statements.

CITY OF HERMANTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

1. Summary of Significant Accounting Policies

The City of Hermantown (City) complies with accounting principles generally accepted in the United States (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

Financial Reporting Entity

The City of Hermantown (City), Minnesota, was incorporated under the laws of the State of Minnesota and operates under an elected Mayor-Council form of government. In determining the financial reporting entity, the City complies with GAAP and includes all component units of which the City appointed a voting majority of the units' board; either the City is able to impose its will on the unit, or a financial benefit or burden relationship exists. As a result of applying these component unit criteria, the Hermantown Economic Development Authority is considered a component unit and is represented in the City's financial statements as a blended component unit, meaning it is reported as if it were a part of the City. The Hermantown Economic Development Authority does not prepare separate financial statements.

Blended Component Unit

The Hermantown Economic Development Authority (HEDA) was established on April 6, 1992, by Resolution 92-29. HEDA is governed by a board of commissioners with seven members. The seven members include the entire City Council (Mayor and four City Council Members) and two community members. The City Administrator is the Executive Director. The City Finance Director shall have the responsibility for administering the finances of HEDA. In 1998, HEDA passed a resolution for the issuance and sale of sales tax revenue bonds to build a new public safety facility. The City was given authority to impose a local sales tax in 1996 that allowed the City to utilize the proceeds to meet the principal and interest payments of the bond. In 2006, this bond was refunded with a new bond that included the construction of the new city hall. The City Council approved the terms of the bond, the note, the loan, and the project by resolution. The City is financially accountable for HEDA because the City Council approves the budget for HEDA, levies taxes (if necessary), and must approve any debt issuances. Hermantown Economic Development Authority has had very limited activity and meets when called by the City Administrator, usually for its annual meeting. HEDA's governing body is substantively the same as the primary government, Hermantown City Council.

HEDA also provides services almost entirely to the primary government. For these reasons, the HEDA fund is recognized as a blended component unit. HEDA, a blended component unit, a legally separate entity, is in substance, a part of the City's operation, and data for HEDA is combined with data for the City. Separate financial statements are not prepared for HEDA.

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) report information on all activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity are offset by program revenues. Direct expenses are those whict are clearly identifiable with a specific function or business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided from governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

Fund Financial Statements

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The fund financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on the major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as other funds (nonmajor).

1. Summary of Significant Accounting Policies (Continued)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those reported in another fund.

Special Revenue Funds – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds – These funds are used to account for the accumulation of resources for and the payment of general long-term obligation principal, interest, and related costs other than those financed by the city sales tax and proprietary funds.

Capital Projects Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are used to account for those operations which are financed and operated in a manner similar to private business or for which the board has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

Major Governmental Funds

General Fund –Accounts for all financial resources except those reported in another fund. It is the general operating fund of the City.

City Sales Tax Fund – Accounts for the restricted sales tax revenues collected that are authorized by the Minnesota State Legislature to fund the construction of a public safety facility, city administrative services facility, and Hermantown sewer trunk line and water infrastructure improvements.

1. Summary of Significant Accounting Policies (Continued)

General Obligation Improvement & Utility Revenue Bonds, Series 2007B Fund – Accounts for the accumulated resources to pay the interest and principal payments on the General Obligation Improvement & Utility Revenue Bonds, Series 2007B.

General Obligation Improvement Bonds, Series 2009A Fund – Accounts for the accumulated resources to pay the interest and principal payments on the General Obligation Improvement Bonds, Series 2009A.

General Obligation Improvement Bonds, Series 2010A Fund – Accounts for the accumulated resources to pay the interest and principal payments on the General Obligation Improvement Bonds, Series 2010A.

General Obligation Improvement Bonds, Series 2012B Fund – Accounts for the accumulated resources to pay the interest and principal payments on the General Obligation Improvement Bonds, Series 2012B.

Major Proprietary Funds

Water Utility Fund – Accounts for the activity of providing water services to the public.

Sewage Disposal Fund – Accounts for the activity of providing sewer disposal services to the public.

Nonmajor Proprietary Fund

Street Lighting Fund – Accounts for the activity of lighting and signalizing public streets.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

1. Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the City considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal year. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, sales taxes, franchise fees, special assessments, intergovernmental revenues, charges for service, and interest associated with the current fiscal period are all considered susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Assets, Liabilities, and Equity

Cash and Temporary Cash Investments

Cash balances from all funds are combined and invested to the extent available in certificates of deposit and other short-term securities. Earnings from such investments are allocated to the respective funds on the basis of average cash balance participation by each fund.

Investments are stated at fair value, based on quoted market prices, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Investment income is accrued at the balance sheet date.

For purposes of the proprietary fund-type statements of cash flows, the City considers all legal investments authorized by Minnesota statutes with a maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair value.

1. Summary of Significant Accounting Policies (Continued)

Interfund Transactions

Activities between funds that are representative of lending/borrowing arrangements are reported as "due to/from other funds" and "advances to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Interfund loan receivables, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable, available financial resources.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible receivables are based on historical trends and the periodic aging of accounts. Business-type activities report utilities as their major receivables.

Accounts receivable for utility receivables are shown at a gross amount, since utility receivables are assessable to the property taxes and are collectible upon sale of the assessed property.

The City allows the hookups to water and sewer service to be paid over a period of time. These contracts bear interest at a rate of 8 percent. Contracts receivable are shown at a gross amount, since they are assessable to the property taxes and are collectible upon sale of the assessed property.

Property Taxes

Property tax levies are set by the City Council in December of each year and are certified to St. Louis County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City on that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts in January, June or July, and November or December.

Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year-end in the governmental fund financial statements. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

1. Summary of Significant Accounting Policies (Continued)

Special Assessments

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with state statutes. These assessments are collectible by the City over a term of years as approved through City Council Resolution. Collection of annual installments (including interest) is handled by the county auditor in the same manner as property taxes. Property owners are allowed to prepay future installments without interest or prepayment penalties.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien on that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to become delinquent, the property is subject to tax forfeit sale, and the first proceeds of that sale (after costs, penalties, and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by the City Council or court action. Pursuant to state statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural, or seasonal recreational land, in which event the property is subject to such sale after five years.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2014, are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

Inventories

All inventories are valued at cost using the first-in, first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and intangible assets such as easements, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, including infrastructure assets, are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. In the case of donations, the government values these capital assets at the estimated fair market value on the date of its donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land Improvements	10-50
Buildings	10-40
Equipment	3-25
Infrastructure	15-25
Transmission System, Source of Supply, and Pumping Plant	50-99

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation leave and sick pay benefits. Vested employees also receive a lump sum payment to a health care savings plan if they retire. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absences liability payable if they have matured, for example, as a result of employee resignations and retirements. The proprietary funds report the liability as it is incurred. Payables for vacation and sick pay in the government-wide statements increased from $224,425 in 2013 to $247,920 in 2014. Payables for vacation and sick pay for enterprise funds increased from $64,237 in 2013 to $70,613 in 2014.

1. Summary of Significant Accounting Policies (Continued)

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line interest method.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Other Postemployment Benefits (OPEB)

The City provides other postemployment benefits (OPEB) to some retired employees based on eligibility established by contracts with bargaining units or other employment contracts. Retirees are required to pay 100% of their premium cost for the City-sponsored group health insurance plan in which they participate.

Fund Balance Classifications

In the fund financial statements, governmental funds report their fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – Consists of amounts that are not in spendable form, such as prepaid items.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors or constraints imposed by state statutory provisions.

Committed – Consists of internally imposed constraints. The City Council will annually, or as deemed necessary, commit specific revenue sources for specified purpose by resolution. This formal action must occur prior to the end of the reporting period; however, the amount to be subject to the constraint may be determined in the subsequent period. To remove the constraint on specified use of committed resources, the City Council shall pass a resolution.

Assigned – Consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management. Pursuant to City Council resolution, the City's Finance Director is authorized to establish assignments of fund balance.

1. Summary of Significant Accounting Policies (Continued)

Unassigned – Is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

When restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources and then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

Comparative Totals and Reclassifications

The basic financial statements and schedules, required supplementary information, and combining and individual fund financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2013, from which the summarized information was derived. In addition, certain amounts in the prior year have been reclassified to conform to the current-year presentation.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflow of resources in the government-wide and proprietary financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to construct or acquire the capital assets. Restricted net position consists of net position with constraints on their use by external restrictions imposed by creditors, grantors, and laws or regulations of other governments. Unrestricted net position is all other net position that does not meet the definition of *restricted* or *investment in capital assets*.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow for resources (revenue) until that time. The City has one type of item, which arises only under a modified accrual basis of accounting, that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

2. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds." The details of this $20,698,919 difference are as follows:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
Governmental Funds - Capital Assets	$ 48,417,969	
Less: Accumulated Depreciation	(27,731,050)	
Net adjustment to increase *fund balance - total governmental funds* to arrive at *net position - governmental activities*		$ 20,686,919

Another element of that reconciliation explains, "Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds." The details of this $7,408,325 difference are as follows:

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds		
Unavailable Special Assessments and Taxes	$ 7,408,325	
Net adjustment to increase *fund balance - total governmental funds* to arrive at *net position - governmental activities*		$ 7,408,325

2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Another element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $26,498,462 difference are as follows:

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds		
Bonds Payable	$(25,230,000)	
Unamortized Bond Discount	66,487	
Unamortized Bond Premium	(173,087)	
Certificate of Indebtedness	(186,023)	
Capital Lease	(27,293)	
Compensated Absences	(247,920)	
Other Postemployment Benefits	(385,501)	
Accrued Interest Payable	(315,125)	
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*		$ (26,498,462)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this $398,816 difference are as follows:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlay	$ 1,778,497	
Depreciation Expense	(1,379,681)	
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*		$ 398,816

2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this $449,998 difference are as follows:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Unearned Revenue, End of Year	$ 7,408,325	
Unearned Revenue, Beginning of Year	(7,858,323)	
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*		$ (449,998)

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $3,692 difference are as follows:

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	$ (23,495)	
Accrued Interest	17,248	
Amortization of Premium and Discount	2,555	
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities.*		$ (3,692)

Another element of that reconciliation states, "Postemployment benefits are funded on a pay-as-you go basis in the governmental fund financial statements. The actuarially determined annual required contribution is recorded in the government-wide financial statements."

Postemployment benefits are funded on a pay-as-you go basis in the governmental fund financial statements. The actuarially determined annual required contribution is recorded in the government-wide financial statements.		
Annual Required Contribution (ARC)/Annual OPEB Cost	$ (73,459)	
Total Contributions Made	10,244	
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities.*		$ (63,215)

2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Another element of that reconciliation states, "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this $827,547 difference are as follows:

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Issuance of Long-Term Debt	$(2,170,000)	
Issuance of Certificate of Indebtedness	(167,000)	
Current-Year Premium and Discount	(51,203)	
Principal Retirement on Long-Term Debt	1,560,656	
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities.*		$ (827,547)

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

The City followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Annual budgets are adopted for the General Fund, Special Revenue Fund, and Debt Service Funds. The budget is adopted on a basis consistent with GAAP. Budgetary comparisons presented in this report are on a budgetary basis. Budgeted expenditure appropriations lapse at year-end. Budgeted amounts are as originally adopted or as amended by the City Council.

3. Stewardship, Compliance, and Accountability (Continued)

2. The budget is legally enacted through passage of a resolution.
3. The government's department heads may make transfers of appropriations within a department. The City Council may authorize transfer of budgeted amounts between departments.
4. Formal budgetary integration is employed as a management control device during the year.

Budgetary control for capital project funds is accomplished through the use of project controls.

B. Excess of Expenditures Over Appropriations

	Final Budget	Actual Expenditures	Excess	Reason
City Sales Tax Fund	$ 37,424	$ 37,800	$ 376	Salaries
Police Program Fund	2,527	2,939	412	Towing
General Obligation Bonds, Series 2014A Fund		47,070	47,070	Bond Expense

C. Deficit Fund Equity

The following funds had a net position or unassigned fund balance deficit at December 31, 2014:

Governmental Funds	
Other Funds:	
Soccer Fund	$ 42,403
G.O. Utility Revenue Refunding Bonds, Series 2007A Fund	191,689
G.O. Improvement Bonds, Series 2012A Fund	231,393
TIF District #1 Improvements Fund	606,117
HEDA - Fleet Projects Fund	4,062
Governmental Activities, Unrestricted	9,546,248

Deficits will be eliminated through future tax levies, other funding sources, or fund transfers as required.

4. Deposits and Investments

Deposits

Minn. Stats. 118A.02 and 118A.03 authorize the City to designate, as a depository for public funds, one or more financial institutions. Minn. Stat. 118A.03 requires that all governmental deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least 10 percent more than the amount on deposit at the close of the financial institution's banking day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

The following are the allowable forms of collateral in lieu of a corporate surety bond: treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligation securities of a local government with taxing powers pledged as collateral against funds deposited by that same local government entity; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minn. Stat. 118A.03 reads: "All collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral."

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of financial institution failure, the City's deposits may not be returned to it. The City requires collateral for deposits over FDIC insurance amounts. The City has no additional deposit policies addressing custodial credit risk. As of December 31, 2014, the City's deposits were not exposed to custodial credit risk.

Investments

Minn. Stats. 118A.04, 118A.05, and 118A.06 generally authorize the following types of investments as available to the City:

(1) Public funds may be invested in governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), and other securities that are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress;
(2) Funds may be invested in the following state and local securities: any security that is a general obligation of any state or local government with taxing powers and is rated "A" or better by a national bond rating service; any security that is a revenue obligation of any state or local government with taxing powers and is rated "AA" or better by a national bond rating service; and

4. Deposits and Investments (Continued)

a general obligation of the Minnesota housing finance agency that is a moral obligation of the state of Minnesota and is rated "A" or better by a national bond rating agency;

(3) Time deposits: Funds may be invested in time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks;

(4) Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less;

(5) With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts; and

(6) Investments, contracts, and agreements may be held in safekeeping with any Federal Reserve Bank; any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including but not limited to the bank from which the investment is purchased; a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or a securities broker-dealer, or an affiliate of it, that meets the following requirements: it is registered as a broker-dealer under Chapter 80A or is exempt from the registration requirements; it is regulated by the Securities and Exchange Commission; and it maintains insurance through the Securities Investor Protection Corporation or excess insurance coverage in an amount equal to or greater than the value of the securities held, provided that the government entity's ownership of all securities is evidenced by written acknowledgements identifying the securities by the names of the issuers, maturity dates, interest rates, CUSIP number, or other distinguishing marks.

Custodial Credit Risk – Investments – For investments in securities, custodial credit risk is the risk that in the event of failure of the counterparty to a transaction, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and therefore are not subject to custodial credit risk disclosures. The City's investment policy does not address custodial credit risk. However, investments in securities are held by the City's broker-dealer, and $500,000 of these is insured through SIPC (Securities Investor Protection Corporation). Each broker-dealer has provided additional protection by providing additional insurance. This insurance is subject to aggregate limits applied to all of the broker-dealer accounts.

4. Deposits and Investments (Continued)

At December 31, 2014, the City had the following investments:

Investment Type	Moody's Rating	Fair Value	Investment Maturities (in Years) Less Than 1 Year	1-5	6-10	11-15	More Than 15 years
Money Market Funds	NR	$ 804,266	$ 804,266	$	$	$	$
U.S. Treasury State and Local	NR	1,553,629	1,553,629				
4M External Investment Funds	NR	279,702	279,702				
Federal Home Loan Bank	AAA	547,336		249,566	297,770		
Federal National Mortgage Assn. Notes	AAA	8,419					8,419
Federal Home Loan Mortgage Corp. Notes	AAA	1,292,868				293,258	999,610
Freddie Mac	AAA	98,483		98,483			
Fannie Mae	AAA	96,997			96,997		
Negotiable Certificates	NR	3,559,177	603,969	2,559,136	191,289	204,783	
Total Investments		$ 8,240,877	$3,241,566	$2,907,185	$ 586,056	$ 498,041	$1,008,029

Total Investments	$ 8,240,877
Deposits	9,108,024
Petty Cash	700
Total Cash and Investments	$17,349,601

Interest Rate Risk – Interest rate risk is the risk that the market value of securities in the portfolio will fall because of changes in the general interest rate. The City's policy is to minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Credit Risk – Generally, credit risk is the risk of loss because of failure of the security issuer or backer. Thus, designated depositories shall have insurance through the FDIC (Federal Deposit Insurance Corporation) or the SIPC (Securities Investor Protection Corporation). It is the City's policy to invest only in securities that meet the ratings requirements set by state statute. Furthermore, the City Council will approve all financial institutions, brokers, and advisers with which the City will do business. The Minnesota Money Market Mutual Fund ("4M Fund") is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2a7. The 4M Fund is an unrated 2a7-like pool, and the fair value of the position of the pool is the same as the value of pool shares.

Concentration of Credit Risk – The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer. To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized.

CITY OF HERMANTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

5. Receivables

Significant receivable balances not expected to be collected within one year of December 31, 2014, are as follows:

Governmental Activities:

Major Funds:	Development Agreement Fees	Special Assessments Receivable	Total
G.O. Utility Improvement & Revenue Refunding Bonds, Series 2007B Fund	$	$ 1,079,063	$ 1,079,063
G.O. Improvement Bonds, Series 2009A Fund		895,740	895,740
G.O. Improvement Bonds, Series 2010A Fund		761,140	761,140
G.O. Improvement Bonds, Series 2012B Fund		1,935,409	1,935,409
Other Governmental Funds	76,888	803,799	880,687
Total	$ 76,888	$ 5,475,151	$ 5,552,039

Business-Type Activities:

Water Utility Fund	
Special Assessments	$ 4,813

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

Property Taxes	$ 130,135
Special Assessments	5,089,176
Special Assessments, Water and Sewer Availabilities, Sr. Citizen	2,084,656
Total Governmental Funds	$ 7,303,967

CITY OF HERMANTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

6. Capital Assets

Capital assets activity for the year ended December 31, 2014, was as follows:

	Balance 1/1/2014	Additions	Deletions	Balance 12/31/2014
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 1,581,454	$	$	$ 1,581,454
Permanent Easements	219,437			219,437
Permanent Land Improvements	200,317			200,317
Construction in Progress		606,118		606,118
Total Capital Assets Not Being Depreciated	2,001,208	606,118		2,607,326
Capital Assets Being Depreciated				
Land Improvements	1,412,976			1,412,976
Buildings	11,650,612		4,878	11,645,734
Equipment	2,157,896	368,931	241,217	2,285,610
Infrastructure	29,662,875	803,448		30,466,323
Total Capital Assets Being Depreciated	44,884,359	1,172,379	246,095	45,810,643
Less Accumulated Depreciation for				
Land Improvements	460,681	63,365		524,046
Buildings	3,702,337	309,386	4,878	4,006,845
Equipment	1,429,197	229,882	241,217	1,417,862
Infrastructure	21,005,249	777,048		21,782,297
Total Accumulated Depreciation	26,597,464	1,379,681	246,095	27,731,050
Total Capital Assets Being Depreciated, Net	18,286,895	(207,302)		18,079,593
Governmental Activities Capital Assets, Net	$20,288,103	$ 398,816	$	$20,686,919

	Balance 1/1/2014	Additions	Deletions	Balance 12/31/2014
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land	$ 310,430	$	$	$ 310,430
Permanent Easements	297,084			297,084
Total Capital Assets Not Being Depreciated	607,514			607,514
Capital Assets Being Depreciated				
Transmission System, Source of Supply and Pumping Plant	40,864,680		5,984	40,858,696
Equipment	999,752	41,100	3,195	1,037,657
Total Capital Assets Being Depreciated	41,864,432	41,100	9,179	41,896,353

6. Capital Assets (Continued)

Less Accumulated Depreciation for				
Transmission System, Source of Supply, and Pumping Plant	6,488,841	617,851	5,984	7,100,708
Equipment	510,432	45,386	3,195	552,623
Total Accumulated Depreciation	6,999,273	663,237	9,179	7,653,331
Total Capital Assets Being Depreciated, Net	34,865,159	(622,137)		34,243,022
Business-Type Activities Capital Assets, Net	$35,472,673	$ (622,137)	$	$34,850,536

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities	
General Government	$ 75,659
Public Safety	198,058
Public Works, Including Depreciation of Infrastructure	915,320
Recreation	75,857
Cable TV	1,003
Economic Development	113,784
Total Depreciation Expense - Governmental Activities	$ 1,379,681
Business-Type Activities	
Water Utility	$ 171,036
Sewage Disposal	488,985
Street Lighting	3,216
Total Depreciation Expense - Business-Type Activities	$ 663,237

7. Long-Term Obligations

Governmental Activities

The following is a summary of change in long-term obligations:

	Balance January 1, 2014	New Debt	Retired Debt	Balance December 31, 2014	Due Within One Year
Revenue Bonds	$ 7,695,000	$	$ 430,000	$ 7,265,000	$ 370,000
General Obligation Special Assessment Bonds With Governmental Commitment	16,880,000	2,170,000	1,085,000	17,965,000	2,015,000
Certificates of Indebtedness	56,335	167,000	37,312	186,023	65,974
Capital Lease	35,637		8,344	27,293	8,710
Less Deferred Amounts:					
Unamortized Bond Discount	(50,156)	(20,296)	(3,965)	(66,487)	(5,325)
Unamortized Bond Premium	108,108	71,499	6,520	173,087	20,013
Total Bonds Payable	24,724,924	2,388,203	1,563,211	25,549,916	2,474,372
Compensated Absences	224,425	135,343	111,848	247,920	110,000
Postemployment Health Care Obligation	322,286	73,459	10,244	385,501	
Total Long-Term Liabilities	25,271,635	2,597,005	1,685,303	26,183,337	2,584,372

In the government-wide financial statements and for the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. The recognition of bond premiums and discounts is amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Bond issuance costs are reported as an expense in the period they occurred.

Revenue bonds, special assessment bonds, and the certificate of indebtedness are paid from debt service funds. The interest expense and fiscal fees paid in 2014 for all bonds and certificate of indebtedness totaled $760,455. All forms of tax-exempt debt are subject to the arbitrage provisions of the Internal Revenue Code of 1986 and related Treasury regulations. The arbitrage provisions limit the amount of interest that may be earned and retained on construction, escrow, reserve, and debt service funds.

Compensated absences and postemployment health care obligations are paid from the General Fund.

7. Long-Term Obligations (Continued)

Special assessment debt is secured by liens on assessed properties and is also backed by the full faith and credit of the City as additional security. The City has a Special Assessment Deficiency Fund established to cover defaults by property owners. As of December 31, 2014, the amount of delinquent special assessments receivable is $67,563.

On November 19, 2014, the City Council approved the sale of $2,170,000 General Obligation Improvement and Utility Refunding Bonds, Series 2014A. Resolution No. 2014-156. Prepaid special assessments of $150,000 were applied to the bond refunding. The Bonds are being issued by the City pursuant to Minnesota Statutes Chapters 429, 444, and 475, for the purposes of: (i) effecting a current refunding of the 2016 through 2021 maturities of the City's $1,565,000 General Obligation Utility Revenue Refunding Bonds, Series 2007A, dated January 4, 2007, and (ii) effecting an advance crossover refunding of the 2017 through 2028 maturities of the City's $2,180,000 General Obligation Improvement and Utility Revenue Bonds, Series 2007B, dated October 3, 2007. The call date for the Series 2007A bonds will be February 1, 2015, with a principal payment of $780,000. The call date for Series 2007B bonds will be February 1, 2016, with a principal payment of $1,390,000. The yield on the bonds is 2.0257%. Debt service schedule is 2015 to 2028. The refunding was undertaken to reduce total debt service payments in future years by $281,632 and resulted in an economic gain of $131,632.

CITY OF HERMANTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

7. Long-Term Obligations (Continued)

Long-term obligations outstanding at December 31, 2014, are summarized below:

Governmental Activities:	Principal Installments	Issue Date	Final Maturity Date	Net Interest Rate	Authorized And Issued	Outstanding 12/31/14
General Long-Term Debt:						
Revenue Bonds:						
Public Project Revenue Bonds, Series 2006A	$155,000 - $730,000	12/5/2006	2/1/2027	4.0419%	$ 9,630,000	$ 7,265,000
Special Assessment Debt						
G.O. Utility Revenue Refunding Bonds, Series 2007A	110,000-180,000	1/4/2007	2/1/2021	3.9046%	1,565,000	945,000
G.O. Improvement and Utility Revenue Bonds, Series 2007B	45,000-150,000	10/3/2007	2/1/2028	4.00%	2,180,000	1,710,000
G.O. Improvement Bonds, Series 2009A	120,000-400,000	12/7/2009	2/1/2030	3.48%	5,515,000	4,450,000
G.O. Improvement Bonds, Series 2010A	25,000-375,000	10/20/2010	2/1/2031	2.74%	3,955,000	3,370,000
G.O. Improvement Refunding Bonds, Series 2012A	90,000-250,000	7/12/2012	2/1/2026	1.94%	2,500,000	2,165,000
G.O. Improvement Bonds, Series 2012B	135,000-195,000	9/27/2012	2/1/2034	2.00%	3,155,000	3,155,000
G. O. Improvement Bonds, Series 2014A					2,170,000	2,170,000
Total General Obligation Debt					21,040,000	17,965,000
Certificates of Indebtedness						
Certificate of Indebtedness, Series 2012	18,048-19,195	4/23/2012	2/1/2015	2.59%	111,881	19,023
Certificate of Indebtedness, Series 2014	24,388-48,297	10/9/2014	2/1/2018	2.05%	167,000	167,000
Total Certificates of Indebtedness					278,881	186,023
Capital Lease	5,000-9,418	7/9/2013	7/9/2017	4.30%	40,637	27,293
Compensated Absences		N/A	N/A	N/A	N/A	247,920
Postemployment Health Care Obligation		N/A	N/A	N/A	N/A	385,501
Total Governmental Activities					$ 30,989,518	$ 26,076,737

CITY OF HERMANTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

7. Long-Term Obligations (Continued)

The annual requirements to amortize all obligations outstanding at December 31, 2014, were as follows:

Year Ending December 31	Revenue Bonds Governmental Activities Principal	Revenue Bonds Governmental Activities Interest	Special Assessment Debt With Government Commitment Governmental Activities Principal	Special Assessment Debt With Government Commitment Governmental Activities Interest
2015	$370,000	$287,207	$2,015,000	$462,817
2016	425,000	271,307	2,795,000	407,581
2017	475,000	253,307	1,120,000	350,917
2018	495,000	233,907	1,165,000	324,787
2019	515,000	213,707	1,175,000	296,645
2020	540,000	192,608	1,225,000	267,226
2021	555,000	170,707	1,265,000	235,323
2022	585,000	147,761	1,175,000	200,579
2023	605,000	123,664	1,205,000	164,155
2024	625,000	98,600	870,000	131,943
2025	650,000	72,463	865,000	104,666
2026	695,000	44,716	655,000	81,826
2027	730,000	15,147	470,000	65,353
2028			485,000	50,678
2029			375,000	37,172
2030			340,000	25,875
2031			225,000	17,382
2032			185,000	11,747
2033			195,000	6,759
2034			160,000	2,100
Totals	$7,265,000	$2,125,101	$17,965,000	$3,245,531

Certificate of Indebtedness and Capital Lease:

Year Ending December 31	Capital Lease Governmental Activities Principal	Capital Lease Governmental Activities Interest	Certificate of Indebtedness Governmental Activities Principal	Certificate of Indebtedness Governmental Activities Interest
2015	$ 8,710	$ 1,197	$ 65,974	$ 2,848
2016	9,092	815	47,266	2,280
2017	9,491	416	48,269	1,278
2018			24,514	259
Totals	$ 27,293	$ 2,428	$ 186,023	$ 6,665

7. Long-Term Obligations (Continued)

Business-Type Activities

The following is a summary of change in long-term obligations:

	Balance January 1, 2014	New Debt	Retired Debt	Balance December 31, 2014	Due Within One Year
Compensated Absences	$ 64,326	$ 33,204	$ 26,917	$ 70,613	$ 25,000

The portion of debt obligations paid out of the business-type activities funds (Water Utility and Sewage Disposal Fund) is recorded by transfers. The total transfers remaining from the Water Utility and Sewage Disposal Funds into Debt Service Funds at the end of 2014 are $730,142 and $752,887, respectively.

The following is a summary of transfers outstanding from business-type activities to governmental activities for general obligation debt:

	Balance January 1, 2014	New Debt	Retired Debt	Balance December 31, 2014	Due Within One Year
Water Utility Transfers for Debt Obligations	$ 778,929	$	$ 48,787	$ 730,142	$ 48,193
Sewage Disposal Transfers for Debt Obligations	813,306		60,419	752,887	59,656
Total Transfers Outstanding	$ 1,592,235	$	$ 109,206	$ 1,483,029	$ 107,849

There are a number of limitations and restrictions contained in the various bond and debt agreements. The City is in compliance with all significant limitations and restrictions.

CITY OF HERMANTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

7. Long-Term Obligations (Continued)

Future revenue pledged for the payment of long-term debt is as follows:

	Revenue Pledged					Current Year	
Bond Issue	Use of Proceeds	Type	Percent of Total Debt Service	Term of Pledge	Remaining Principal and Interest	Principal and Interest Paid	Pledged Revenue Received
Public Project Revenue Bonds, Series 2006A	Administrative Services Building	City Sales Taxes	100%	2007-2027	$ 9,390,101	$ 733,208	$ 736,008
G.O. Improvement and Utility Revenue Refunding Bonds, Series 2014A	Refund 2007A and 2007B Bonds	Sales Tax	42%				
		Special Assessments	35%				
		Special Deficiency or Levy	19%	2015-2028	2,529,303	-	-
		Water	2%				
		Sewer	2%				
G.O. Utility Revenue Refunding Bonds, Series 2007A	Refund 2000 G.O. Bonds	Special Deficiency			119,416		-
		City Sales Taxes	79%	2007-2021	815,384	175,938	175,498
		Special Assessments	21%	2011-2016	28,328	28,328	36,280
G.O. Improvement and Utility Revenue Bonds, Series 2007B	Utility Infrastructure Projects	City Sales Taxes	23%	2008-2028	422,661	37,563	37,563
		Special Assessments & Spec. Def.	69%	2008-2028	1,250,470	111,134	116,368
		Water	4%	2008-2028	68,314	6,120	6,071
		Sewer	4%	2008-2028	68,314	6,120	6,071
G.O. Improvement Bonds, Series 2009A	Public Works Facility, Salt Storage Building, Refund 2003A G.O. Bonds, Utility Infrastructure Projects	City Sales Taxes	14%	2010-2025	785,867	72,019	72,019
		Property Taxes & Spec. Def	17%	2010-2030	986,059	62,919	153,771
		Special Assessments	50%	2010-2029	2,781,316	239,570	194,540
		Water	11%	2010-2030	645,812	46,110	42,716
		Sewer	8%	2010-2030	450,755	29,513	30,330
G.O. Bonds, Series 2010A	Refund 2002 G.O. Bonds, Utility Infrastructure Projects	City Sales Taxes	46%	2011-2023	1,804,645	199,005	199,825
		Payoff of 2022 G.O. Bonds				-	
		Special Assessments	48%	2011-2031	1,903,585	170,040	134,630
		Sewer	6%	2011-2023	217,802	24,018	24,018
G.O. Bonds, Series 2012A	Refund 2003B and 2005A G.O. Bonds Utility	City Sales Taxes	70%	2013-2026	1,683,375	138,295	138,296
		Special Assessments	21%	2013-2026	628,316	92,349	132,920
		Close 2005A (Fund 314)			-	-	
		Property Taxes			-	-	153
	Infrastructure and Street Improvements	Special Deficiency	9%	2014-2016	98,639	48,853	48,854
G.O. Bonds, Series 2012B	Utility Infrastructure Projects	Sales Tax	13%	2013-2034	528,569	9,288	9,288
		Special Assessments	81%	2013-2034	3,173,341	55,744	214,646
							-
		Special Deficiency	6%	2013-2034	220,256	3,863	-

CITY OF HERMANTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

8. Conduit Debts

The Hermantown Economic Development Authority (HEDA) has issued revenue bonds for the purpose of providing capital financing to various entities. Even though the debt bears HEDA's name, HEDA is not responsible for the payment of the original debt. The debt is secured by the payments agreed to be paid by these entities under the terms of the agreement between HEDA and the entity. The general description of the transactions and the outstanding balance as of December 31, 2014, are as follows:

Enterprises	Year of Issue	Outstanding Balance 12/31/2014
Marshall School 2004B	2004	$ 526,040
Saints-Hilltoppers Arena Project 2010	2010	617,973
Marshall School 2011	2011	329,398
Total Outstanding		$ 1,473,411

9. Interfund Transactions

The composition of interfund balances as of December 31, 2014, was as follows:

	Due from Other Funds	Due to Other Funds
Governmental Funds:		
Major Funds:		
General Fund	$ 210,997 (1)	$
City Sales Tax Fund	424,758 (1)	
Other Governmental Funds:		
Cable Television Fund	(1)	39,869
Soccer Fund	(1)	58,362
G.O. Utility Revenue Refunding Bonds, Series 2007A Fund	(1)	191,689
G.O. Improvement Bonds, Series 2012A Fund	(1)	233,068
Municipal State Aid Streets Fund	(1)	109,561
HEDA Fleet Projects Fund	(1)	3,206
Totals	$ 635,755	$ 635,755
Proprietary Funds:		
Sewage Disposal Fund	$ 143,388 (1)	$
Street Lighting Fund	(1)	143,388
Totals	$ 143,388	$ 143,388

(1) = Provide Funding for Negative Cash at Year-End.

CITY OF HERMANTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

9. Interfund Transactions (Continued)

Due to/from balances are caused by either timing differences or the elimination of negative cash balances within the various funds. All interfund balances are expected to be repaid within one year.

Advances From/to Other Funds

	Advance to Other Funds		Advance from Other Funds
Governmental Funds:			
Other Governmental Funds:			
Cable TV Fund	$ 150,000	(1)	$
TIF District #1 Improvements Fund		(1)	500,000
Totals	$ 150,000		$ 500,000
Proprietary Funds:			
Street Lighting Fund	$ 350,000	(1)	$

(1) = Construction Advance

Interfund Transfers

Transfers are indicative of funding for capital projects, debt service, subsidies of various City operations, and reallocations of special revenues. The following schedule briefly summarizes the City's transfer activity.

9. Interfund Transactions (Continued)

In the year ended December 31, 2014, the City made the following one-time transfers, which are included in the amounts presented above:

		Transfers In	Transfers Out
Governmental Funds:			
101	General Fund	$ 62,500	$ 19,750
240	City Sales Tax Fund		1,461,038
236	Wetland Mitigation Fund	58,051	
237	Hermantown Wetland Bank Fund		58,051
250	Police School Relations Fund	15,000	
251	Police Liaison Education Fund	185	
315	Governmental Service Facility Bond Series 2006 Fund	736,008	
316	G.O. Refunding Bonds, Series 2007A Fund	175,498	
317	G.O. Improvement & Utility Revenue Bonds, Series 2007B Fund	91,021	150,000
318	G.O. Improvement Bonds, Series 2009A Fund	233,039	
319	G.O. Bonds, Series 2010A Fund	291,083	8,515
320	G.O. Improvement Bonds, Series 2012A Fund	187,150	
321	G.O. Improvement Bonds, Series 2012B Fund	9,288	
322	G.O. Improvement Bonds, Series 2014A Fund	150,000	
350	Special Assessment Deficiency Fund	8,515	245,384
402	Municipal State Aid Streets Fund	4,565	8,941
475	Special Assessment Projects Fund	8,941	
	Totals	$2,030,844	$1,951,679
Proprietary Funds:			
601	Water Utility Fund	$ 32,541	$ 48,787
602	Sewage Disposal Fund		60,419
605	Street Lighting Fund		2,500
	Totals	$ 32,541	$ 111,706

9. Interfund Transactions (Continued)

A transfer of $1,436,038 from the City Sales Tax Fund to various debt service funds for the local sales tax portion of the debt service payments.

A transfer of $25,000 from the City Sales Tax Fund to the General Fund for the repayment of the contribution to the Miller Trunk Water project.

A transfer of $4,565 from the General Fund to the Municipal State Aid Streets Fund for overage on the Ugstad road project.

A transfer of $245,384 from the Special Assessment Deficiency Fund to various debt service funds for bond payments.

A transfer of $150,000 from the General Obligation Improvement & Utility Revenue Bonds, Series 2007B Fund to the General Obligation Improvement Bonds, Series 2014A Fund to make a payment on the refunded G.O. Refunding Bonds, Series 2007A bonds.

A transfer of $48,787 from Water Utility Fund to various debt service funds as part of Water Department contributions.

A transfer of $60,419 from the Sewage Disposal Fund to various debt service funds as part of the Sewer Department contributions.

A transfer of $8,941 from the Municipal State Aid Streets Fund to the Special Assessment Project Fund for road projects.

A transfer of $8,515 from the General Obligation Bonds, Series 2010A Fund to the Special Assessment Deficiency Fund for E-1 pumps for Project 432.

A transfer of $15,000 from the General Fund to the Police Liaison Education Fund for the City's share of the school resource officer.

A transfer of $2,500 from the Street Lighting Fund to the General Fund for administration.

CITY OF HERMANTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

10. Net Position/Fund Balances

A. Classifications

A summary of the governmental fund balance classifications at December 31, 2014 are as follows:

	General	City Sales Tax	General Obligation Improvement & Utility Revenue Bonds Series 2007B	General Obligation Improvement Bonds Series 2009A	General Obligation Bonds Series 2010A	General Obligation Bonds Series 2012B	Other Funds	2014 Total	2013 Total
Nonspendable:									
Prepaid Items	$ 89,751	$ 88	$	$	$	$	$ 1,071	90,910	68,340
Long-Term Receivable									9,491
Total Nonspendable	89,751	88					1,071	90,910	77,831
Restricted for:									
Municipal State Aid							37,754	37,754	
DWI Enforcement							12,888	12,888	669
DWI Prosecution							9,034	9,034	9,054
Public Safety Expo							158	158	158
Park Improvements							12,086	12,086	10,077
Debt Service		2,888,127	77,332	219,445	261,711	1,068,701	3,115,029	7,630,345	4,103,360
Total Restricted		2,888,127	77,332	219,445	261,711	1,068,701	3,186,949	7,702,265	4,123,318
Committed to:									
Community Development Infrastructure	106,586							106,586	81,494
Economic Development							58,365	58,365	62,324
Park Improvements							130,627	130,627	110,227
Wetland Restoration							74,803	74,803	14,833
Infrastructure Improvements									58,030
Cable TV							280,761	280,761	253,299
Debt Service							688,559	688,559	909,421
Total Committed	106,586						1,233,115	1,339,701	1,489,628
Assigned to:									
Wellness									535
Park Improvements							76,462	76,462	70,335
Liaison/DARE							35,404	35,404	28,662
Municipal Buildings							390,731	390,731	390,732
Total Assigned							502,597	502,597	490,264
Unassigned	3,227,296						(1,075,160)	2,152,136	2,393,877
Totals	$ 3,423,633	$ 2,888,215	$ 77,332	$ 219,445	$ 261,711	$ 1,068,701	$3,848,572	$11,787,610	$ 8,574,918

10. Net Position/Fund Balances (Continued)

At December 31, 2014, the City reported $11,400,499 of restricted net position on the statement of net position as follows:

Restricted for:	
Governmental Activities:	
Minnesota State Aid	$ 37,754
DWI Enforcement	12,888
DWI Prosecution	9,034
Public Safety Expo	158
Park Improvements	12,086
Debt Service	9,697,790
Business-Type Activities	
Replacement, Depreciation, and Development	1,630,789
Total	$ 11,400,499

B. Minimum Fund Balance Policy

The City Council has formally adopted a policy regarding the minimum unrestricted fund balance for the General Fund. The policy establishes a year-end targeted unrestricted fund balance of 35%-50%, no less than five months of the next year's budgeted expenditures. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other governmental aids, are received in the second half of the City's fiscal year. At December 31, 2014, the unassigned fund balance for the General Fund was 74% of the subsequent year's budgeted expenditures, or $3,227,296.

11. Defined Benefit Pension Plans - Statewide

A. Plan Description

All full-time and certain part-time employees of the City of Hermantown are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. The plans are established and administered in accordance with Minnesota Statutes Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by social security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers who qualify for membership by statute are covered by PEPFF.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated Plan and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic Plan and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced social security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

11. Defined Benefit Pension Plans – Statewide (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree; no survivor annuity is payable. There are also various types of joint and survivor annuity options available that will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, MM, 55103-2088; or by calling 651.296.7460 or 1.800.652.9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. In 2014, the City was required to contribute the following percentage of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 15.3% for PEPFF members. The City's contribution to GERF for the years ending December 31, 2014, 2013, and 2012, were $72,438, $66,640 and $62,938, respectively. The City's contributions to the PEPFF for the years ending December 31, 2014, 2013, and 2012, were $155,570, $144,716, and $136,564, respectively. The City's contributions were equal to the contractually required contributions for each year as set by statute. Contribution rates will increase on January 1, 2015, in the Coordinated Plan (6.5% for members and 7.5% for employers) and the PEPFF (10.8% for members and 16.2% for employers).

12. Defined Contribution Pension Plans – Statewide

Two council members of the City of Hermantown are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until the time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes Chapter 353D.03 specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of his or her salary, which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer; and for salaried employees, employer contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and 0.25-percent of the assets in each member's account annually.

Total contributions made by the City of Hermantown during fiscal year 2014 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
$270	$270	5.0%	5.0%	5.0%

13. Postemployment Health Care Plan

In 2008, the City prospectively implemented the requirement of a new accounting pronouncement, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.*

Plan Description

The City provides the ability for employees to maintain insurance coverage with the City after retirement through a single-employer defined benefit plan. The term *plan* refers to the City's requirement by state statute to provide retirees with access to health insurance. The OPEB plan is administered by the City. The authority to provide this benefit is established in Minnesota Statutes Sections 471.61 Subd. 2a and 299A.465. The benefits, benefit levels, employee contributions, and employer contributions are governed by the City and can be amended by the City through its collective bargaining agreements with employee groups. The plan does not issue a separate report.

Benefits Provided

The City is required by state statute to allow retirees to continue participation in the City's group health insurance plan if the individual terminates service with the City through service retirement or disability retirement. Employees who are eligible for retirement under PERA and have completed 5 years of service at the time of retirement are eligible to commence medical benefits under the department head contract.

American Federation of State, County, and Municipal Employees (AFSCME) and the Law Enforcement Labor Services (LELS) union employees must complete a minimum of 20 years of service and at the time of retirement are eligible to start medical benefits. International Union of Operating Engineers (IUOE) union employees must complete a minimum of 17 years of service and at the time of retirement are eligible to start medical benefits. Retirees may also obtain coverage for dependents and/or spouses. Covered spouses may continue coverage after the retiree's death.

All health care coverage is provided through the City's group health insurance plans. Retirees are required to pay 100% of their premium cost for the City-sponsored group health insurance plan in which they participate. The premium is a blended rate determined on the entire active and retiree population. Since the projected claims costs for retirees exceed the blended premium paid by retirees, the retirees are receiving an implicit rate subsidy (benefit). The coverage levels are the same as those afforded to active employees. Upon a retiree reaching 65 years of age, Medicare becomes the primary insurer, and the City's plan becomes the secondary insurer. All but one City retiree discontinued City insurance when they became Medicare eligible. That retiree has since discontinued the City insurance.

13. Postemployment Health Care Plan (Continued)

Funding Policy

An employee of the City of Hermantown who is covered by an employment contract that provides for post-retirement benefits is eligible to participate as defined in employment and union contracts. The plan is financed on a pay-as-you-go basis. The City of Hermantown's contributions for plan benefits to retirees for the years ending December 31, 2014, 2013, and 2012, were $10,244, 14,057, and $12,837, respectively.

Annual OPEB Cost and Net OPEB Obligation

The City of Hermantown's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City of Hermantown's annual OPEB cost for the year as of December 31, 2014:

Annual required contribution (ARC)	$	79,206
Interest on net OPEB obligation		12,891
Adjustment to ARC (amortization of NOO)		(18,638)
Annual required contribution (ARC)/annual OPEB cost	$	73,459

13. Postemployment Health Care Plan (Continued)

The following table shows the components of the City of Hermantown's amount actually contributed to the plan and the changes in the City of Hermantown's net OPEB obligation as of December 31, 2014:

Annual required contribution (ARC)/annual OPEB cost	$	73,459
Contributions made:		
Actuarially determined contribution toward the implicit rate portion of the ARC		(10,244)
Total contributions made		(10,244)
Increase in OPEB obligation		63,215
Net OPEB obligation, December 31, 2013		322,286
Net OPEB obligation, December 31, 2014	$	385,501

The City of Hermantown's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013, and 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	$ 59,267	21.7%	$ 275,219
December 31, 2013	61,124	23.0%	322,286
December 31, 2014	73,459	13.9%	385,501

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 100 percent unfunded. The actuarial value of plan assets and the funded ratio are both $0. The actuarial accrued liability and the unfunded actuarial accrued liability (UAAL) for benefits were $510,985. The covered payroll (annual payroll of active employees covered by the plan) was $2,002,313, and the ratio of the UAAL to the covered payroll is 25.5 percent.

13. Postemployment Health Care Plan (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood between the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014, actuarial valuation, the projective unit credit cost method was used. The actuarial assumptions included a discount rate of 4-percent and health care trend rates ranging from 7.5-percent initially, reduced by decrements to an ultimate rate of 5 percent to eight years. The rates included a 3-percent inflation assumption. The UAAL is being amortized as a level dollar amount over 30 years on an open period. The benefits are not based on salary; therefore, no assumption was made regarding salary increases.

14. Fire Relief Association

Plan Description

Firefighters of the Hermantown Volunteer Fire Department Inc., a Minnesota corporation, are members of the Hermantown Fire Fighters Relief Association (the "Association"). The Association is the administrator of a single-employer defined benefit pension plan available to firefighters that was established September 4, 1951, and operates under the provisions of Minnesota Statutes Section 69.772. It is governed by a six-member board of trustees elected by the members of the Association for one-year terms. Two City Councilor members and the fire chief are ex officio, nonvoting members of the board of trustees. There was no actuarial valuation for this lump sum service pension plan as of December 31, 2014.

A service pension is payable to a member who: (1) separates from active service with the fire department; (2) reaches age 50; (3) completes at least 10 years of active service as an active member of the fire department with which the Association is associated; (4) completes at least 10 years of active membership with the Association before separation from active service; and (5) complies with any additional conditions as to age, service, and membership that are prescribed by the bylaws of the Association. The defined retirement benefits are based on a member's years of service. Vesting begins after the tenth year of service, with a 60% benefit, increasing to 100% after the twentieth year of service. The Association's bylaws set the amount of benefit per year of service at $3,700 during 2014 per Resolution 2014-31.

As of December 31, 2014, which is the most recent information available, membership data related to the Association was:

Retirees and terminated employees entitled to benefits but not yet receiving them	2
Active plan participants:	
Vested	8
Nonvested	17
Total	27

The Association issues a financial report that includes financial statements and required supplemental information. That report may be obtained from Hermantown Fire Department Relief Association, 5111 Maple Grove Road, Hermantown, Minnesota 55811.

14. Fire Relief Association (Continued)

Funding Policy

The City has an agreement with the Hermantown Volunteer Fire Department Inc. (the "Fire Department") to provide fire protection for the citizens and businesses of the City. The agreement makes reference to the contribution to the Hermantown Fire Fighters Relief Association (the "Relief Association"). The Fire Department and the Relief Association function independent of the City, whereas the officers are elected by the membership. The City levies a tax annually for pension contributions to the Relief Association as part of its General Fund property tax levy in accordance with state statutes. The pension levy meets the minimum requirements of the Police and Firemen's Relief Association Guidelines Act and includes an amount sufficient to cover the normal level of cost as determined by the statutory survey, interest at 5 percent on any unfunded liability, and an amount for the amortization of the unfunded pension liability over 10 years, if needed. The Relief Association is composed of volunteers; therefore, members have no contribution requirements. The contribution required from the City for the year ended December 31, 2014, was $0. The City's actual contributions for the years ended December 31, 2014, 2013, and 2012 were $28,138, $27,900, and $27,900, respectively. The Relief Association also receives funding from the state 2-percent fire premium tax.

The City receives the State Fire Aid contributions and is required by state statute to pass this through as available for benefits. The Minnesota State Fire Aid contribution to the Relief Association is recorded as revenue and an expense in the General Fund of the City. The City received and remitted state fire aid in the amount of $61,627.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and related information for the year ended December 31, 2014, is as follows:

	2014	2013
Annual Pension Cost	$ -	$68,276
Contributions: Hermantown Fire Dept	$28,138	$27,900
& State of MN 2% fire aid	61,627	40,376
	$89,765	$68,276
Asset valulation	Fair value	

14. Fire Relief Association (Continued)

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	63,212	100%	
2013	68,276	100%	
2014	89,765	100%	

Funding Progress

As of December 31, 2014, which is the most recent information available, the plan was over-funded by $300,636.

Valuation Date - December 31,	Value of Plan Net Position	Accrued Plan Liability	Funded (Unfunded) Pension Liability	Funded Ratio
2010	$ 958,629	$ 865,016	$ 93,613	111%
2011	909,736	735,605	174,131	124%
2012	1,037,637	925,983	111,654	112%
2013	1,170,849	1,021,883	148,966	115%
2014	1,183,219	882,583	300,636	134%

15. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Upon retirement, in accordance with various employment and union contracts, the value of the qualifying banked sick hours will be submitted as a Health Care Savings Plan (HCSP) contribution to the Minnesota State Retirement System (MSRS) to be used to pay the employee's health insurance premiums. The year-end accrued sick leave and accrued vacation balance increased by $6,287 in the proprietary funds and by $23,495 in the governmental funds. As of December 31, 2014, seven employees were vested for sick leave. The present value of future benefits is recorded as compensated absences in the statement of net position at December 31, 2014, in the amount of $318,533.
Any employee who is at the maximum accumulation of sick leave and who is credited for sick leave during a year in excess of the maximum sick leave shall, as of December 31 of the year in question, have 20 percent of such excess credit towards sick leave deposited in the State of Minnesota Health Care Savings Plan at the employees December 31 wage rate of the year in question. The City paid $1,001 to the MSRS for this employee benefit in 2014.

16. Leases

In October 2011, a lease extension agreement was made between HEDA and Independent School District No. 700 to extend the term of the Lease from February 2, 2012 to June 30, 2017 ("Initial Extension Term"). The Lease term shall automatically be renewed for additional one-year term(s) ("Extension Term") unless either party advises the other party six months prior to the end of any term of such party's determination to terminate the term of the lease at the end of their term. This is a noncancelable lease, and the School District is using the building for its Early Childhood Education Program.

Future payments to be received under the lease are as follows:

Years	Amount
2015	$ 1,000
2016	1,000
2017	1,000
Total 2015-2017	$ 3,000

19. Accounting Standards Effective in Future Periods

GASB recently approved the following statements, which were not implemented for these financial statements:

Statement No. 68, *The Accounting and Financial Reporting of Pensions – An Amendment of GASB Statement No.27.* The provisions of this statement are effective for financial statements of the City for the year after June 15, 2014.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* The provisions of this statement should be applied simultaneously with the provisions of Statement 68.

The effect these standards may have on future financial statements is not determinable at this time.

20. Subsequent Events

None.

CITY OF HERMANTOWN, MINNESOTA

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014

CITY OF HERMANTOWN, MINNESOTA

OTHER POST-EMPLOYMENT BENEFITS PLAN
DECEMBER 31, 2014

Schedule of Funding Progress by Valuation Date

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
January 1, 2008	$	$ 652,164	$ 652,164	0.00%	$1,795,951	36.31%
January 1, 2011		521,682	521,682	0.00%	1,670,124	31.20%
January 1, 2014		510,985	510,985	0.00%	2,002,313	25.50%

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2008	$ 76,872	$ 18,232	23.7%	$ 58,640
2009	75,827	20,055	26.4%	114,412
2010	81,448	12,837	15.8%	183,023
2011	57,436	11,670	20.3%	228,789
2012	59,267	12,837	21.7%	275,219
2013	61,124	14,057	23.0%	322,286
2014	73,459	10,244	13.9%	385,501

CITY OF HERMANTOWN, MINNESOTA

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

DECEMBER 31, 2014

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds from specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Hermantown Economic Development Authority (HEDA) Fund – Created to preserve and create jobs, enhance tax base, assist certain housing initiatives, and promote the general welfare of the people of the City. HEDA's governing body is substantively the same as the primary government, the Hermantown City Council. HEDA also provides services almost entirely to the primary government. This fund is shown as a blended component unit of the City.

Park Dedication Fund – Accounts for the collection of restricted revenue sources for fees in lieu of land dedication and committed revenue sources for a fee for the number of bedrooms on a building permit. Both revenue sources are dedicated to the acquisition and capital improvement of city parks.

Hermantown Wetland Mitigation Fund – Accounts for the collection of committed revenues from landowners who disturb wetlands in connection with the development of a parcel of land to utilize for the acquisition, enhancement, restoration, or creation of wetlands within the City.

Hermantown Wetland Bank Fund – Accounts for the collection of committed revenues from the sale of wetland bank credits used to support infrastructure improvements.

Police Liaison Education Fund – Accounts for the collection of restricted revenue sources for court fines for the DARE program and committed revenue sources for a contract for services with the Hermantown school district for a school resource officer.

Police Program Fund – Accounts for restricted revenues of forfeited cash and property for law enforcement programs.

Cable Television Fund – Accounts for committed revenues (franchise fees) and expenditures associated with administering a franchise agreement to provide cable television to Hermantown residents.

Soccer Fund – Accounts for committed revenues (development agreement) and expenditures dedicated for the improvement of Hermantown soccer fields funded by the Hermantown Youth Soccer Association.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for and the payment of general long-term obligation principal, interest, and related costs, other than those financed by the City's local sales tax and proprietary funds.

Certificate of Indebtedness Fund – Accounts for the accumulated restricted resources to pay the interest and principal payments on the Certificate of Indebtedness.

Public Project Revenue Bonds, Series 2006A Fund – Accounts for the accumulated restricted resources to pay the interest and principal payments on the Public Project Revenue Bonds, Series 2006A. HEDA passed a resolution for the issuance of these bonds.

General Obligation Utility Revenue Refunding Bonds, Series 2007A Fund – Accounts for the accumulated restricted resources to pay the interest and principal payments on the General Obligation Utility Revenue Refunding Bonds, Series 2007A.

General Obligation Improvement Bonds, Series 2012A Fund – Accounts for the accumulated restricted resources to pay the interest and principal payments on the General Obligation Refunding Bonds, Series 2012A.

General Obligation Improvement Bonds, Series 2014A Fund – Accounts for the accumulated restricted resources to pay the interest and principal payments on the General Obligation Bonds, Series 2014A.

Special Assessment Deficiency Fund – Accounts for the accumulated assigned resources to ensure debt service payments of bonds in cases for which special assessments have been deferred or collections are not sufficient. This fund was established by Resolution No. 2001-174.

Capital Projects Funds

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

General Capital Projects Fund – Accounts for restricted, committed, or assigned resources for improvements and construction of general capital projects.

Municipal Building Reserve Fund – Accounts for restricted, committed, or assigned resources for improvements and construction of municipal buildings.

Municipal State Aid Streets Fund – Accounts for improvements to municipal state aid streets within Hermantown.

TIF District #1 Improvements Fund – Accounts for restricted, committed, or assigned resources for infrastructure improvements and construction that are funded by revenues other than special assessments.

HEDA – Fleet Projects Fund – Accounts for restricted, committed, or assigned resources for infrastructure improvements and construction that are funded by revenues other than special assessments.

Special Assessment Projects Fund – Accounts for restricted, committed, or assigned resources for infrastructure improvements and construction that are funded by special assessments.

CITY OF HERMANTOWN, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	Special Revenue Funds						
	Hermantown Economic Development Authority Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	Police Liaison Education Fund	Police Program Fund	Cable Television Fund	Soccer Fund
Assets							
Cash and Temporary Cash Investments	$ 45,865	$ 130,696	$ 74,803	$ 35,405	$ 22,162	$	$
Investments		98,563				151,195	
Cash and Investments Held in Escrow							
Accounts Receivable	18,750	450			15	21,071	21,922
Interest Receivable		518				81	
Property Taxes Receivable							
Development Agreement Fees Receivable							92,342
Special Assessments Receivable	75,000						
Due From Other Funds							
Prepaid Items				1,000		71	
Advance to Other Funds						150,000	
Total Assets	139,615	230,227	74,803	36,405	22,177	322,418	114,264
Deferred Outflows of Resources							
Total Assets and Deferred Outflows of Resources	$ 139,615	$ 230,227	$ 74,803	$ 36,405	$ 22,177	$ 322,418	$ 114,264
Liabilities							
Accounts Payable	$ 6,250	$	$	$	$ 97	$ 1,545	$
Contracts Payable							
Accrued Wages Payable						172	
Due to Other Funds						39,869	58,362
Due to Other Government							
Deposits		5,000					
Advance to Other Funds							
Unearned Revenue		6,053					98,305
Total Liabilities	6,250	11,053			97	41,586	156,667
Deferred Inflows of Resources							
Delinquent Property Tax							
Unavailable Special Assessments	75,000						
Unavailable Sp. Assmts, WAC,SAC, Sr. Cit							
Total Deferred Inflows of Resources	75,000						
Fund Balances							
Nonspendable				1,000		71	
Restricted		12,086			22,080		
Committed	58,365	130,627	74,803			280,761	
Assigned		76,461		35,405			
Unassigned							(42,403)
Total Fund Balance (Deficit)	58,365	219,174	74,803	36,405	22,080	280,832	(42,403)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 139,615	$ 230,227	$ 74,803	$ 36,405	$ 22,177	$ 322,418	$ 114,264

CITY OF HERMANTOWN, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DECEMBER 31, 2014

With Comparative Actual Totals for the Year Ended December 31, 2013

	Special Revenue Funds							
	Hermantown Economic Development Authority Fund	Park Dedication Fund	Hermantown Wetland Mitigation Fund	Hermantown Wetland Bank Fund	Police Liaison Education Fund	Police Program Fund	Cable Television Fund	Soccer Fund
Revenues								
Taxes	$	$	$	$	$	$	$ 42,844	$
Licenses and Permits		22,400						
Intergovernmental	18,750							
Charges for Services					63,310			
Fines & Forfeits					2,093	15,831		
Special Assessments								
Investment Income	64	(952)	61	21	55	12	2,435	
Development Agreement Fees			1,858					6,46
Rents	1,000	7,087						
Conduit Financing Fees	2,770							
Donations					1,191	550		
Miscellaneous								
Total Revenues	22,584	28,535	1,919	21	66,649	16,393	45,279	6,46
Expenditures								
Current								
General Government								
Public Safety					74,500	2,939		
Economic Development	26,543							
Cable TV							17,192	
Capital Outlay								
Public Safety								
Public Works								
Special Assessment								
Cable TV							624	
Debt Service								
Principal Retirement								
Bond Expenses								
Interest and Fiscal Charges								
Total Expenditures	26,543				74,500	2,939	17,816	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,959)	28,535	1,919	21	(7,851)	13,454	27,463	6,46
Other Financing Sources (Uses)								
Principal Paid From Escrow								
Transfers In			58,051		15,000	185		
Transfers Out				(58,051)				
Refund & Reimbursement								
Proceeds from Certificate of Indebtedness								
Discount on Long-Term Debt								
Bond Issuance								
Premium								
Total Other Financing Sources (Uses)			58,051	(58,051)	15,000	185		
Net Change in Fund Balance	(3,959)	28,535	59,970	(58,030)	7,149	13,639	27,463	6,46
Fund Balance (Deficit) January 1	62,324	190,639	14,833	58,030	29,256	8,441	253,369	(48,87
Fund Balance (Deficit) December 31	$ 58,365	$ 219,174	$ 74,803	$	$ 36,405	$ 22,080	$ 280,832	$ (42,40

CITY OF HERMANTOWN, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013
(Continued)

	Debt Service Funds					
	Certificate of Indebtedness Fund	Public Project Revenue Bonds Series 2006A Fund	General Obligation Utility Revenue Refunding Bonds Series 2007A Fund	General Obligation Improvements Bonds Series 2012A Fund	General Obligation Improvements Bonds Series 2014A Fund	Special Assessment Deficier Fund
Revenues						
Taxes	$ 40,407	$	$	$ 153	$	$
Licenses and Permits						
Intergovernmental						
Charges for Services						
Fines & Forfeits						
Special Assessments			36,280	132,920		4,941
Investment Income						2,551
Development Agreement Fees						
Rents						
Conduit Financing Fees						
Donations						
Miscellaneous						
Total Revenues	40,407		36,280	133,073		7,492
Expenditures						
Current						
General Government						
Public Safety						
Economic Development						
Cable TV						
Capital Outlay						
Public Safety						
Public Works	167,000					
Special Assessment						(8,5
Cable TV						
Debt Service						
Principal Retirement	37,312	430,000	165,000	245,000		
Bond Expenses					46,970	
Interest and Fiscal Charges	1,238	305,504	40,013	35,244	100	
Total Expenditures	205,550	735,504	205,013	280,244	47,070	(8,5
Excess (Deficiency) of Revenues Over (Under) Expenditures	(165,143)	(735,504)	(168,733)	(147,171)	(47,070)	16,0
Other Financing Sources (Uses)						
Principal Paid From Escrow						
Transfers In		736,008	175,498	187,150	150,000	8,5
Transfers Out						(245,384)
Refund & Reimbursement						
Proceeds from Certificate of Indebtedness	167,000					
Discount on Long-Term Debt					(20,296)	
Bond Issuance					2,170,000	
Premium					71,499	
Total Other Financing Sources (Uses)	167,000	736,008	175,498	187,150	2,371,203	(236,869)
Net Change in Fund Balance	1,857	504	6,765	39,979	2,324,133	(220,8
Fund Balance (Deficit) January 1	28,744	760,295	(198,454)	(271,372)		909,4
Fund Balance (Deficit) December 31	$ 30,601	$ 760,799	$ (191,689)	$ (231,393)	$ 2,324,133	$ 688,5

CITY OF HERMANTOWN, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013
(Continued)

	Capital Project Funds						Total Nonmajor Governmental Funds	
	General Capital Projects Fund	Municipal Building Reserve Fund	Municipal State Aid Streets Fund	TIF District 1 Improvements Fund	HEDA Fleet Projects Fund	Special Assessment Projects Fund	2014	2013
Revenues								
Taxes	$	$	$	$	$	$	$ 83,404	$ 84,712
Licenses and Permits							22,400	26,324
Intergovernmental			798,884				817,634	329,262
Charges for Services							63,310	62,069
Fines & Forfeits							17,924	9,108
Special Assessments							174,141	246,575
Investment Income							4,247	3,573
Development Agreement Fees							8,326	7,343
Rents							8,087	2,676
Conduit Financing Fees							2,770	2,771
Donations							1,741	3,681
Miscellaneous								668
Total Revenues			798,884				1,203,984	778,760
Expenditures								
Current								
General Government				53,908			53,908	
Public Safety							77,439	78,583
Economic Development					4,062		30,605	11,285
Cable TV							17,192	16,345
Capital Outlay								
Public Safety								29,736
Public Works			794,508	552,209			1,513,717	114,474
Special Assessment							(8,515)	1,174,470
Cable TV							624	8,739
Debt Service								
Principal Retirement							877,312	756,351
Bond Expenses							46,970	
Interest and Fiscal Charges							382,099	455,506
Total Expenditures			794,508	606,117	4,062		2,991,351	2,645,489
Excess (Deficiency) of Revenues Over (Under) Expenditures			4,376	(606,117)	(4,062)		(1,787,367)	(1,866,729)
Other Financing Sources (Uses)								
Principal Paid From Escrow								(2,285,000)
Transfers In			4,565			8,941	1,343,913	3,976,984
Transfers Out			(8,941)				(312,376)	(3,268,372)
Refund & Reimbursement								(110,722)
Proceeds from Certificate of Indebtedness							167,000	
Discount on Long-Term Debt							(20,296)	
Bond Issuance							2,170,000	
Premium							71,499	
Total Other Financing Sources (Uses)			(4,376)			8,941	3,419,740	(1,685,110)
Net Change in Fund Balance				(606,117)	(4,062)	8,941	1,632,373	(3,551,839)
Fund Balance (Deficit) January 1	53,128	337,603	37,754			(8,941)	2,216,199	5,768,038
Fund Balance (Deficit) December 31	$ 53,128	$ 337,603	$ 37,754	$ (606,117)	$ (4,062)	$	$3,848,572	$2,216,199

CITY OF HERMANTOWN, MINNESOTA

GENERAL OBLIGATION IMPROVEMENT & UTILITY REVENUE BONDS, SERIES 2007B FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Special Assessments	$ 115,229	$ 116,368	$ 1,139	$ 120,661
Expenditures				
Debt Service				
Principal Retirement	90,000	90,000		90,000
Interest & Fiscal Charges	71,586	71,586		74,890
Total Expenditures	161,586	161,586		164,890
Excess (Deficiency) of Revenues Over (Under) Expenditures	(46,357)	(45,218)	1,139	(44,229)
Other Financing Sources (Uses)				
Transfer In	91,021	91,021		168,403
Transfer Out		(150,000)	(150,000)	
Total Other Financing Sources (Uses)	91,021	(58,979)	(150,000)	168,403
Net Change in Fund Balance	44,664	(104,197)	(148,861)	124,174
Fund Balance, January 1	181,529	181,529		57,355
Fund Balance, December 31	$ 226,193	$ 77,332	$(148,861)	$ 181,529

CITY OF HERMANTOWN, MINNESOTA

GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2009A FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			2013
	Final Budget	Actual	Variance	Actual
Revenues				
Taxes	$ 64,873	$ 65,796	$ 923	$ 64,351
Special Assessments	205,245	194,540	(10,705)	174,123
Total Revenues	270,118	260,336	(9,782)	238,474
Expenditures				
Debt Service				
Principal Retirement	285,000	285,000		265,000
Interest & Fiscal Charges	166,081	165,878	203	172,506
Total Expenditures	451,081	450,878	203	437,506
Excess (Deficiency) of Revenues Over (Under) Expenditures	(180,963)	(190,542)	(9,579)	(199,032)
Other Financing Sources				
Transfer In	233,039	233,039		142,806
Net Change in Fund Balance	52,076	42,497	(9,579)	(56,226)
Fund Balance, January 1	176,948	176,948		233,174
Fund Balance, December 31	$ 229,024	$ 219,445	$ (9,579)	$ 176,948

CITY OF HERMANTOWN, MINNESOTA

GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2010A FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			2013
	Final Budget	Actual	Variance	Actual
Revenues				
Special Assessments	$ 117,943	$ 134,630	$ 16,687	$ 145,298
Expenditures				
Current				
E-One Pumps				22,802
Debt Service				
Principal Retirement	300,000	300,000		260,000
Interest & Fiscal Charges	93,883	93,809	74	99,113
Total Expenditures	393,883	393,809	74	381,915
Excess (Deficiency) of Revenues Over (Under) Expenditures	(275,940)	(259,179)	16,761	(236,617)
Other Financing Sources (Uses)				
Transfer In	291,083	291,083		233,309
Transfer Out	(8,515)	(8,515)		
Total Other Financing Sources (Uses)	282,568	282,568		233,309
Net Change in Fund Balance	6,628	23,389	16,761	(3,308)
Fund Balance, January 1	238,322	238,322		241,630
Fund Balance, December 31	$ 244,950	$ 261,711	$ 16,761	$ 238,322

CITY OF HERMANTOWN, MINNESOTA

GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2012B FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Other State Grants & Aids	$	$ 4,290	$ 4,290	$
Special Assessments	189,147	214,646	25,499	338,991
Total Revenues	189,147	218,936	29,789	338,991
Expenditures				
Other Equipment				
E-1 Pumps				102,974
Debt Service				
Interest & Fiscal Charges	69,640	69,640		58,627
Total Expenditures	69,640	69,640		161,601
Excess of Revenues Over Expenditures	119,507	149,296	29,789	177,390
Other Financing Sources				
Transfer In	9,288	9,288		640,103
Net Change in Fund Balance	128,795	158,584	29,789	817,493
Fund Balance, January 1	910,117	910,117		92,624
Fund Balance, December 31	$ 1,038,912	$ 1,068,701	$ 29,789	$ 910,117

CITY OF HERMANTOWN, MINNESOTA

HERMANTOWN ECONOMIC DEVELOPMENT AUTHORITY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Other State Grants & Aids	$	$ 18,750	$ 18,750	$
Investment Income	18	64	46	140
Conduit Financing Fees	2,770	2,770		2,771
Rent	1,000	1,000		1,500
Total Revenues	3,788	22,584	18,796	4,411
Expenditures				
Current				
Economic Development	37,158	26,543	10,615	11,285
Excess (Deficiency) of Revenues Over (Under) Expenditures	(33,370)	(3,959)	29,411	(6,874)
Fund Balance, January 1	62,324	62,324		69,198
Fund Balance , December 31	$ 28,954	$ 58,365	$ 29,411	$ 62,324

CITY OF HERMANTOWN, MINNESOTA

PARK DEDICATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Licenses and Permits	$ 16,800	$ 22,400	$ 5,600	$ 24,850
Investment Income	495	(952)	(1,447)	990
Rents	5,876	7,087	1,211	1,176
Total Revenues	23,171	28,535	5,364	27,016
Expenditures				
Excess of Revenues Over Expenditures	23,171	28,535	5,364	27,016
Fund Balance, January 1	190,639	190,639		163,623
Fund Balance, December 31	$ 213,810	$ 219,174	$ 5,364	$ 190,639

CITY OF HERMANTOWN, MINNESOTA

HERMANTOWN WETLAND MITIGATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			2013
	Final Budget	Actual	Variance	Actual
Revenues				
Licenses and Permits	$	$	$	$ 1,475
Investment Income	4	61	57	18
Development Agreement		1,858	1,858	
Total Revenues	4	1,919	1,915	1,493
Expenditures				
Excess of Revenues Over Expenditures	4	1,919	1,915	1,493
Other Financing Sources				
Transfer In	58,030	58,051	(21)	
Net Change in Fund Balance	58,034	59,970	1,936	1,493
Fund Balance, January 1	14,833	14,833		13,340
Fund Balance , December 31	$ 72,867	$ 74,803	$ 1,936	$ 14,833

CITY OF HERMANTOWN, MINNESOTA

HERMANTOWN WETLAND BANK FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Investment Income	$ 17	$ 21	$ 4	$ 73
Expenditures				
Excess of Revenues Over Expenditures	17	21	4	73
Other Financing Uses				
Transfer Out	(58,030)	(58,051)	(21)	
Net Change in Fund Balance	(58,013)	(58,030)	(17)	73
Fund Balance, January 1	58,030	58,030		57,957
Fund Balance, December 31	$ 17	$	$ (17)	$ 58,030

CITY OF HERMANTOWN, MINNESOTA

POLICE LIAISON EDUCATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Charges for Services	$ 63,310	$ 63,310	$	$ 62,069
Fines & Forfeits	2,093	2,093		4,204
Investment Income	12	55	43	50
Donations	1,191	1,191		3,181
Total Revenues	66,606	66,649	43	69,504
Expenditures				
Current				
Public Safety	75,424	74,500	924	75,821
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,818)	(7,851)	967	(6,317)
Other Financing Sources				
Transfer In	15,000	15,000		15,000
Net Change in Fund Balance	6,182	7,149	967	8,683
Fund Balance, January 1	29,256	29,256		20,573
Fund Balance, December 31	$ 35,438	$ 36,405	$ 967	$ 29,256

CITY OF HERMANTOWN, MINNESOTA

POLICE PROGRAM FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Fines & Forfeits	$ 595	$ 15,831	$ 15,236	$ 4,902
Investment Income	3	12	9	33
Donations	500	550	50	500
Miscellaneous				668
Total Revenues	1,098	16,393	15,295	6,103
Expenditures				
Current				
Public Safety	2,527	2,939	(412)	2,761
Capital Outlay				
Public Safety				29,736
Total Expenditures	2,527	2,939	(412)	32,497
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,429)	13,454	14,883	(26,394)
Other Financing Sources				
Transfer In		185	185	
Net Change in Fund Balance	(1,429)	13,639	15,068	(26,394)
Fund Balance, January 1	8,441	8,441		34,835
Fund Balance , December 31	$ 7,012	$ 22,080	$ 15,068	$ 8,441

CITY OF HERMANTOWN, MINNESOTA

CABLE TELEVISION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Taxes				
Franchise Fees	$ 42,000	$ 42,844	$ 844	$ 43,843
Investment Income	25	2,435	2,410	2,697
Total Revenues	42,025	45,279	3,254	46,540
Expenditures				
Current				
Cable TV	24,499	17,192	7,307	16,345
Capital Outlay				
Cable TV	9,000	624	8,376	8,739
Total Expenditures	33,499	17,816	15,683	25,084
Excess Revenues Over Expenditures	8,526	27,463	18,937	21,456
Other Financing Uses				
Transfer Out	(150,000)		150,000	
Net Change in Fund Balance	(141,474)	27,463	168,937	21,456
Fund Balance, January 1	253,369	253,369		231,913
Fund Balance , December 31	$ 111,895	$ 280,832	$ 168,937	$ 253,369

CITY OF HERMANTOWN, MINNESOTA

SOCCER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Development Agreement Fees	$ 6,468	$ 6,468	$	$ 7,342
Expenditures				
Excess Revenues Over Expenditures	6,468	6,468		7,342
Fund Balance (Deficit), January 1	(48,871)	(48,871)		(56,213)
Fund Balance (Deficit), December 31	$ (42,403)	$ (42,403)	$	$ (48,871)

CITY OF HERMANTOWN, MINNESOTA

CERTIFICATE OF INDEBTEDNESS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Taxes	$ 40,421	$ 40,407	$ (14)	$ 40,609
Expenditures				
Heavy Equipment	167,000	167,000		
Debt Service				
Principal Retirement	37,312	37,312		36,351
Interest & Fiscal Charges	1,238	1,238		2,199
Total Expenditures	205,550	205,550		38,550
Excess (Deficiency) of Revenues Over (Under) Expenditures	(165,129)	(165,143)	(14)	2,059
Other Financing Sources				
Proceeds From Certificate of Indebtedness	167,000	167,000		
Net Change in Fund Balance	1,871	1,857	(14)	2,059
Fund Balance, January 1	28,744	28,744		26,685
Fund Balance, December 31	$ 30,615	$ 30,601	$ (14)	$ 28,744

CITY OF HERMANTOWN, MINNESOTA

PUBLIC PROJECT REVENUE BONDS, SERIES 2006A FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues	$	$	$	$
Expenditures				
Debt Service				
Principal Retirement	430,000	430,000		345,000
Interest & Fiscal Charges	306,008	305,504	504	320,708
Total Expenditures	736,008	735,504	504	665,708
Excess (Deficiency) of Revenues Over (Under) Expenditures	(736,008)	(735,504)	504	(665,708)
Other Financing Sources				
Transfer In	736,008	736,008		687,173
Net Change in Fund Balance		504	504	21,465
Fund Balance, January 1	760,295	760,295		738,830
Fund Balance, December 31	$ 760,295	$ 760,799	$ 504	$ 760,295

CITY OF HERMANTOWN, MINNESOTA

GENERAL OBLIGATION UTILITY REVENUE REFUNDING BONDS, SERIES 2007A FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Special Assessments	$ 36,131	$ 36,280	$ 149	$ 46,253
Expenditures				
Debt Service				
Principal Retirement	165,000	165,000		155,000
Interest & Fiscal Charges	40,013	40,013		45,537
Total Expenditures	205,013	205,013		200,537
Excess (Deficiency) of Revenues Over (Under) Expenditures	(168,882)	(168,733)	149	(154,284)
Other Financing Sources				
Transfer In	175,498	175,498		305,748
Net Change in Fund Balance	6,616	6,765	149	151,464
Fund Balance (Deficit), January 1	(198,454)	(198,454)		(349,918)
Fund Balance (Deficit), December 31	$ (191,838)	$ (191,689)	$ 149	$ (198,454)

CITY OF HERMANTOWN, MINNESOTA

GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2012A FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Taxes	$ 157	$ 153	$ (4)	$
Special Assessments	100,758	132,920	32,162	60,147
Investment Income				1,801
Total Revenues	100,915	133,073	32,158	61,948
Expenditures				
Debt Service				
Principal Retirement	245,000	245,000		90,000
Interest & Fiscal Charges	35,318	35,244	74	37,762
Total Expenditures	280,318	280,244	74	127,762
Excess (Deficiency) of Revenues Over (Under) Expenditures	(179,403)	(147,171)	32,232	(65,814)
Other Financing Sources (Uses)				
Transfer In	187,150	187,150		279,778
Transfers Out				(2,285,000)
Total Other Financing Sources (Uses)	187,150	187,150		(2,005,222)
Net Change in Fund Balance	7,747	39,979	32,232	(2,071,036)
Fund Balance (deficit), January 1	(271,372)	(271,372)		1,799,664
Fund Balance (deficit), December 31	$ (263,625)	$ (231,393)	$ 32,232	$ (271,372)

CITY OF HERMANTOWN, MINNESOTA

GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2014A FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	Final Budget	Actual	Variance
Revenues	$	$	$
Expenditures			
Debt Service			
Bond Expenses		46,970	(46,970)
Interest & Fiscal Charges		100	(100)
Total Expenditures		47,070	(47,070)
Deficiency of Revenues Over Expenditures		(47,070)	(47,070)
Other Financing Sources (Uses)			
Transfer In		150,000	150,000
Discount on Long Term Debt		(20,296)	(20,296)
Bonds Issuance		2,170,000	2,170,000
Premium		71,499	71,499
Total Other Financing Sources (Uses)		2,371,203	2,371,203
Net Change in Fund Balance		2,324,133	2,324,133
Fund Balance, January 1			
Fund Balance, December 31	$	$ 2,324,133	$ 2,324,133

CITY OF HERMANTOWN, MINNESOTA

SPECIAL ASSESSMENT DEFICIENCY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014
With Comparative Actual Totals for the Year Ended December 31, 2013

	2014			
	Final Budget	Actual	Variance	2013 Actual
Revenues				
Special Assessments	$ 5,137	$ 4,941	$ (196)	$ 88,455
Investment Income		2,551	2,551	(2,230)
Total Revenue	5,137	7,492	2,355	86,225
Expenditures				
Other Equipment		(8,515)	(8,515)	(22,802)
Excess of Revenues Over Expenditures	5,137	16,007	10,870	109,027
Other Financing Sources (Uses)				
Transfer In		8,515	8,515	22,802
Transfer Out	(245,384)	(245,384)		(130,057)
Total Other Financing Sources (Uses)	(245,384)	(236,869)	8,515	(107,255)
Net Change in Fund Balance	(240,247)	(220,862)	19,385	1,772
Fund balance, January 1	909,421	909,421		907,649
Fund balance, December 31	$ 669,174	$ 688,559	$ 19,385	$ 909,421

WIPFLi LLP

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

To the Honorable City Council
City of Hermantown
Hermantown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermantown, Minnesota (City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 9, 2015.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will be not prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency, which are described in the accompanying schedule of findings and responses as item 2014-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, the communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

Duluth, Minnesota
July 9, 2015

WIPFLi LLP

Independent Auditor's Report on Legal Compliance for the State of Minnesota

To the Honorable City Council
City of Hermantown
Hermantown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing* Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hermantown, Minnesota (City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated July 9, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions,* promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivision,* except as described in the schedule of findings and responses as item 2014-002. However our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

Duluth, Minnesota
July 9, 2015

CITY OF HERMANTOWN, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

Financial Statement Findings

Item 2014-001 - Significant Audit Adjustments internal control

Condition - The City is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. During our audit, we proposed material adjustments to convert the City's financial records to the financial statements as reported.

Criteria - Controls should be in place to ensure accurate financial reporting.

Cause – The City's controls over period-end financial reporting did not prevent or detect misstatements of the financial statements.

Effect - Without controls over procedures that will detect or prevent a misstatement when entering transactions or making adjustment to the financial statements, the financial statements may be misstated.

City's response - Turnover in the Finance Director positon in 2015 along with new procedures will hopefully prevent this in the future.

Legal Compliance Findings

2014-002 - Minn. Stat. 270C.66 requires that before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors, to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. 290.92 (Form IC-134). The City did not obtain the form before making final payment to a contractor.

City's response - The City will endeavor to follow the legal requirement to obtain all Form IC-134's in the future. This was a single incident on a payment to the prime contractor that had been held for a longer than normal time due to un-related concerns with the prime contractor. All new employees have been informed of the necessity to withhold checks pending the receipt of IC-134's.

CITY OF HERMANTOWN, MINNESOTA

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

Financial Statement Findings

None.